

MACQUARIE GROUP
2011 ANNUAL REPORT



This 2011 Macquarie Group Annual Report complies with reporting requirements and contains statutory financial statements. It contains reports from the Chairman and Managing Director on Macquarie's business and operational highlights, Macquarie's Corporate Governance Statement, the Directors' Report including the Remuneration Report and full financial statements.

The 2011 Shareholder Review contains a report from the Chairman and Managing Director on Macquarie's business and operational highlights. It is not a concise report prepared under section 314 (2) of the Corporations Act. Macquarie Group has not prepared a concise report for the 2011 financial year.

If you would like a copy of the 2011 Shareholder Review please call us on +61 2 8232 5006 or visit macquarie.com.au/investorrelations.

2011 Annual General Meeting

Macquarie Group's 2011 Annual General Meeting will be held at 10:30am on Thursday 28 July 2011 at the Hilton Hotel (Grand Ballroom), 488 George Street, Sydney NSW.

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

The Holey Dollar

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

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



Macquarie Group Limited

2011 Annual Report

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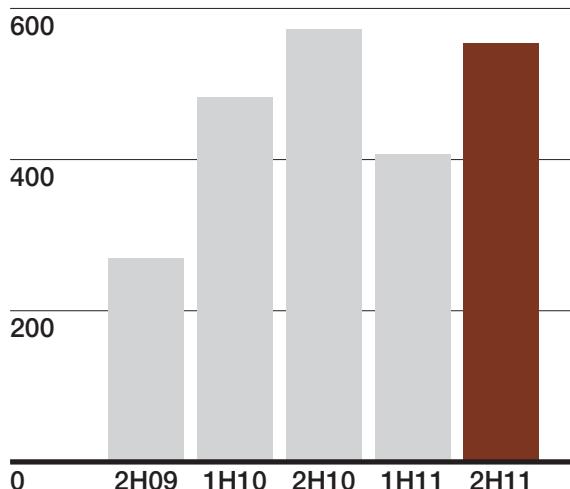
Key financial details

Consolidated profit

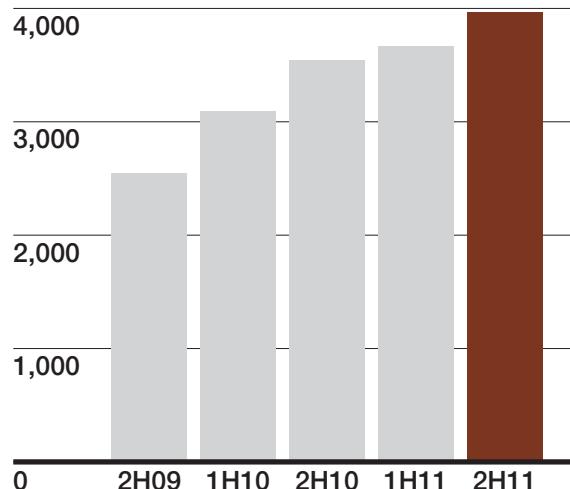
Year ended 31 March

	2011 \$Am	2010 \$Am	% Change
Net operating income	7,644	6,638	15
Total operating expenses	(6,373)	(5,344)	19
Profit before income tax	1,271	1,294	(2)
Income tax expense	(282)	(201)	40
Profit from ordinary activities after income tax	989	1,093	(10)
Non-controlling interest	(33)	(43)	(23)
Profit after income tax attributable to ordinary equity holders	956	1,050	(9)

Reported net profit after tax attributable to
ordinary equity holders
\$A million



Operating income
\$A million

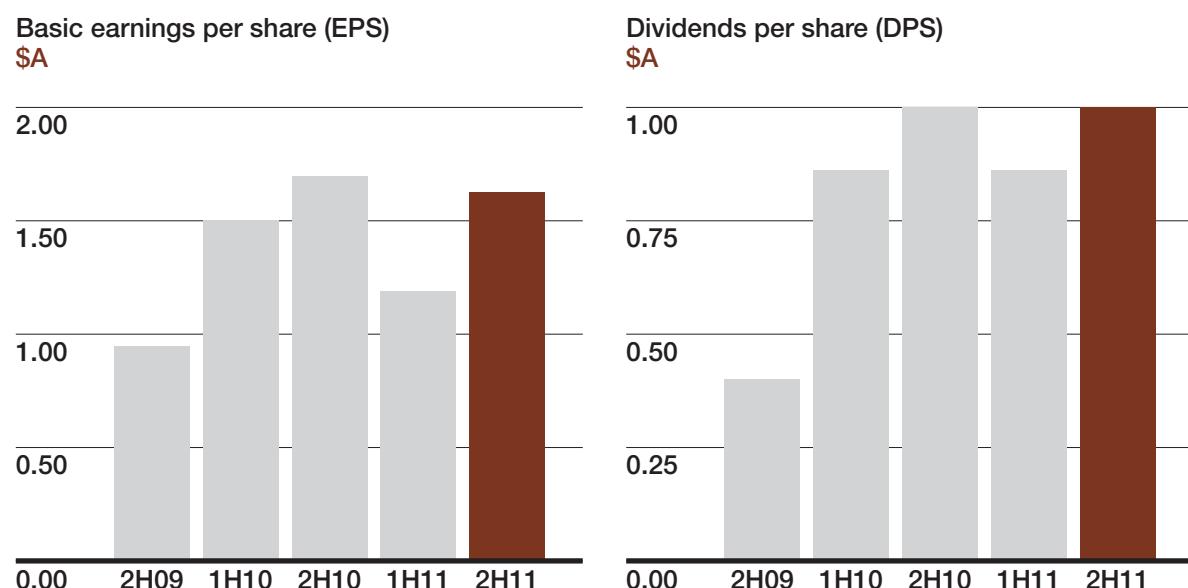


Full year result reflects improvement in second half of year

- Profit of \$A956 million
- Operating income of \$A7.6 billion
- International income 60 per cent of total
- Earnings per share of \$A2.83
- Total ordinary dividends of \$A1.86 per share
- Return on equity of 8.8 per cent per annum
- Assets under management of \$A310 billion

Strong funding and balance sheet position

- Diverse and stable funding base
- Solid and conservative balance sheet
- Minimal reliance on short-term wholesale funding markets
- Total deposits of \$A31.6 billion
- \$A9.7 billion of new term funding
- \$A3.0 billion of capital in excess of minimum regulatory capital requirement



Chairman and Managing Director's Report

Macquarie Group's result for the full year ended 31 March 2011 was nine per cent down on the prior year.

During the first half of the year market conditions were subdued, particularly for Macquarie Securities Group, Macquarie Capital and Fixed Income, Currencies and Commodities (FICC). However, overall performance significantly improved during the second half with most businesses benefiting from improved market conditions, with the exception of Macquarie Securities Group which experienced continued subdued equity markets.

The Group benefited during the year from its expanded global platform with notable increased contributions from Corporate and Asset Finance Group's growing lease business, FICC's commodity financing and trading operations and Macquarie Funds Group's increased funds management platform following the Delaware acquisition. Macquarie continues to grow its international businesses and build on the diversity of its global platform.

The Group maintained its strong capital and funding position and its conservative approach to risk management that has been a foundation of Macquarie's unbroken 42-year record of profitability.

Result overview

Macquarie Group (Macquarie) reported a consolidated after-tax profit for the year ended 31 March 2011 of \$A956 million, a decrease of nine per cent on the previous year's profit of \$A1.05 billion. Earnings per share were \$A2.83, a decrease of 12 per cent from \$A3.20 in the prior year. Dividends per share were \$A1.86, in line with the previous year. Return on equity was 8.8 per cent, down from 10.1 per cent in the prior year. The overall result, as in recent years, was affected by the cost of carrying excess liquidity on the balance sheet.

Net operating income for the year was \$A7.6 billion, an increase of 15 per cent from \$A6.6 billion in the prior year. Corporate and Asset Finance Group (CAF) achieved a strong operating result compared with the prior year, benefiting from recent growth initiatives. The result from Macquarie Funds Group (MFG) was down on the prior year which included a number of gains from listed fund initiatives, but excluding these the result was significantly up on the prior year. The result from Banking and Financial Services Group (BFS) was slightly up on the prior year. Fixed Income, Currencies and Commodities (FICC) reported a strong result in the second half of the year, but was down on the prior year due to difficult markets in the first half of the year. Subdued equity market conditions affected activity across Macquarie Securities Group (MSG) and Macquarie Capital with MSG reporting a significantly lower result than the prior year.

Profit before tax for the year was \$A1.3 billion, in line with the prior year. Foreign exchange translation is estimated to have had a negative impact on the result of approximately five per cent due to the strengthening of the Australian dollar by an average of 10 per cent against major currencies over the year. Total international income increased by 31 per cent to \$A4.4 billion, accounting for 60 per cent of total annual income and 64 per cent of income in the second

half of the year. Total staff exceeded 15,500 with 53 per cent based outside Australia, compared with 50 per cent at 31 March 2010.

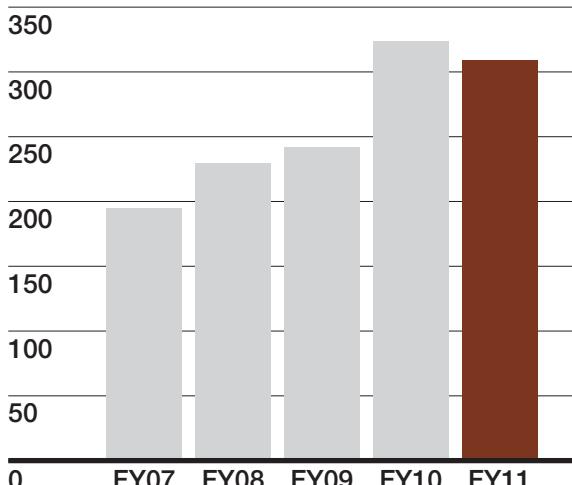
Assets under management (AUM) decreased 5 per cent from \$A326 billion at 31 March 2010 to \$A310 billion at 31 March 2011. The decrease was largely due to the conversion of the Macquarie Cash Management Trust to the Macquarie Cash Management Account and also the impact of the appreciation of the Australian dollar against major global currencies.

Operating expenses were \$A6.4 billion, an increase of 19 per cent from \$A5.3 billion in the previous year. The increase was primarily due to the full-year effect of the expanded global platform. Average headcount increased 17 per cent on the prior year. The expense to income ratio increased to 83.4 per cent, compared with 80.5 per cent in the previous year. The effective tax rate for the year increased to 22.8 per cent from 16.1 per cent in the prior year, primarily due to a lower level of impairments and write-downs.

Operating conditions

Ongoing volatility and uncertainty was a feature of global markets during the year, particularly during the first half. While there was some improvement in equity market volumes in Australia, Asia, Europe and Canada, volumes remained subdued overall. This impacted activity levels for the cash equities and derivatives businesses. Equity capital market (ECM) volumes in Australia and Europe, Middle East and Africa (EMEA) were significantly lower than the prior year, while there was some improvement in Asia, the US and Canada. Mergers and acquisitions (M&A) activity generally improved on the prior year. Conditions for retail broking improved in the second half of the year, but were also relatively subdued. Australian Securities Exchange (ASX) retail trading market volumes were down on the prior

Assets under management \$A billion



Chairman and Managing Director's Report

continued

year, a reflection of reduced retail investor confidence. Demand for deposit products remained strong.

Mutual funds in all regions experienced increases in overall AUM compared with the prior year. While MFG's AUM remained flat for 2011, it experienced approximately \$A20 billion of net inflows and capital appreciation over the period, which was largely offset by the appreciation of the Australian dollar against major global currencies.

FICC benefited from rising prices in metals and agricultural commodities and the continued rally in US credit markets. This was offset by challenging conditions in energy markets, particularly in US gas prices, and subdued client activity in global foreign exchange. Activity levels for FICC's businesses overall improved during the second half of the year.

For the CAF businesses, primary and secondary corporate credit margins decreased as liquidity continued to flow back into global credit markets. The US leasing environment remains relatively weak.

In this mixed environment with lower than normal activity levels, Macquarie businesses continued to grow their global platforms and maintained strong market positions.

Growth initiatives

Macquarie pursued a range of growth initiatives during the year.

MSG expanded its global equities platform through organic growth and acquisitions during the year. The European business expanded its research coverage from 270 to more than 400 stocks and significantly increased its Derivatives DeltaOne product platform to more than 40,000 listed products on issue following the acquisition of two businesses of German private bank Sal. Oppenheim jr. & Cie. KGaA (Sal Oppenheim), completed in April 2010.

Macquarie ranks as the ninth largest equities research house globally. It now has more than 2,400 stocks under coverage with particular expertise in the distribution of Asia-Pacific stocks into the US and Europe.

Following the acquisition of financial institutions group (FIG) specialist firm Fox-Pitt Kelton Cochran Caronia Waller in 2009, Macquarie's FIG advisory business has continued to expand, advising on a number of significant transactions during the year. It won several key awards for the world's largest-ever initial public offering (IPO), the \$US22 billion dual listing of Agricultural Bank of China Limited on the Hong Kong and Shanghai stock exchanges. Macquarie acted as joint sponsor, joint bookrunner and joint lead manager on the Hong Kong listing. Macquarie Capital advised AXA Asia Pacific Holdings on the \$A13 billion acquisition of its business by AXA SA and AMP, the largest financial services transaction in Australian corporate history, and was a co-lead manager for AIA Group's \$US20 billion listing on the Stock Exchange of Hong Kong, the second largest-ever IPO.

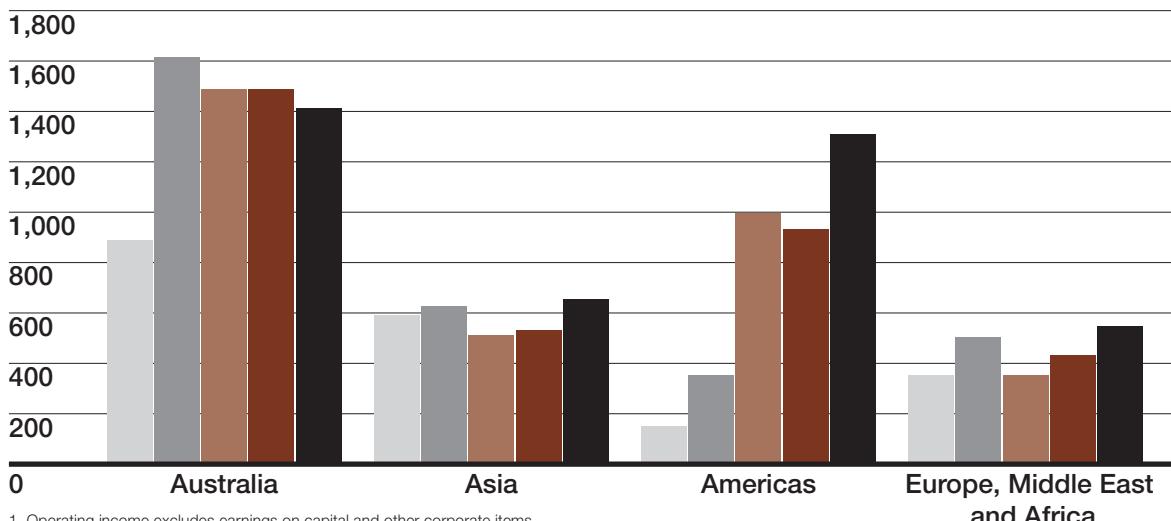
Two acquisitions were made in the US that will enhance Macquarie Capital's advisory offering. The acquisition of Presidio Partners LLC, a specialist real estate private capital raising and advisory business, was completed in November 2010. This was followed by the announcement that Macquarie would acquire REGAL Capital Advisors, LLC, a boutique firm that provides strategic and financial advice in the gaming, lodging and leisure industries.

During the year, Macquarie further consolidated its asset management businesses with Macquarie Capital Funds becoming a division of MFG and renamed Macquarie Infrastructure and Real Assets (MIRA). Macquarie now ranks as Australia's largest asset manager and in the top 40 globally.

Over the period, MFG continued to execute a range of growth initiatives across its divisions. It acquired INNOVEST Kapitalanlage AG, a leading Austrian securities asset manager, enhancing Macquarie Investment Management's presence in Europe. MIRA continued to build out its Asian unlisted funds platform, raising over \$A1.5 billion in equity for funds focused on Korea, China,

Operating income¹ by region

2H09 ■ 1H10 ■ 2H10 ■ 1H11 ■ 2H11 ■
\$A million



1. Operating income excludes earnings on capital and other corporate items

and India. Macquarie Specialised Investment Solutions successfully expanded its wholesale business, particularly in the US and Europe.

FICC continued to develop its Asia regional hub in Singapore where Macquarie was recently granted a bank branch licence covering a range of activities. In addition, an Asian Markets business was established in Singapore offering foreign exchange and corporate debt services to pension funds, hedge funds and banks globally. Macquarie's Korean bank branch licence was also extended to include over-the-counter derivatives.

In the US, FICC expanded its energy marketing and trading platform with the addition of a Calgary-based crude oil marketing team and a Latin American oil liquids origination and marketing team based in Houston. It continued to grow its credit trading capabilities with the addition of a commercial mortgage finance and commercial mortgage-backed securities team in New York.

CAF grew its lease and loan portfolio by 22 per cent to \$A17.3 billion during the year, with the acquisition of new portfolios and continued organic growth across most businesses. During the year, CAF acquired an aircraft operating lease portfolio from International Lease Finance Corporation for \$US1.6 billion. The acquisition of the GMAC auto finance portfolio of approximately \$A1 billion consolidated CAF's position as one of the largest providers of car finance in Australia. CAF also extended its corporate lending, securitisation, smart metering and equipment leasing activities.

BFS undertook a number of initiatives in its international businesses launching Macquarie EquityPlus, an investment product tailored for the Canadian retail market, and establishing an agricultural investment strategy for clients of Macquarie's Indian joint venture, Religare-Macquarie Private Wealth. BFS' global client numbers grew by 40,000 to 1.04 million during the year, driven by organic growth in Australia and Canada.

Capital

Macquarie has a long-standing policy of holding a level of capital which supports its business and has consistently grown its capital base ahead of business requirements. Capital at 31 March 2011 was \$A12.1 billion which was \$A3.0 billion in excess of the Group's minimum regulatory capital requirement.

During the year, Macquarie Group Limited issued \$US400 million of Preferred Membership Interests, eligible hybrid capital, which further diversified the funding mix of the Group.

Proposed Basel III changes are expected to result in a more conservative risk weighting of assets, a stricter capital deduction regime and increased minimum capital ratios for financial institutions globally. The rules are subject to implementation by the Australian Prudential Regulation Authority (APRA) with uncertainty around the consequent changes APRA will make to its prudential standards for Australian banks. Macquarie continues to monitor developments but its current assessment is that it has sufficient capital to meet the Basel III capital and leverage ratio requirements.

Funding

Macquarie remains well funded from diversified funding sources. Total deposits increased by 61 per cent from \$A19.6 billion at 31 March 2010 to \$A31.6 billion at 31 March 2011, primarily as a result of the conversion of the Macquarie Cash Management Trust to the Macquarie Cash Management Account. This deposit base represents a diverse and stable source of funding. Short-term wholesale issued paper remains a very small portion of overall funding with term assets covered by term funding and equity.

Macquarie will continue to focus on deploying surplus funding into income-generating assets and the continued growth of the Group's global platform.

Dividend

The Board resolved to pay a final ordinary dividend of \$A1.00 per ordinary share (unfranked), up from \$A0.86 in the first half. The total ordinary dividend payment for the year of \$A1.86 per share was in line with the previous year. Although the current year annual payout ratio was 67 per cent, this is a reflection of a lower profit level rather than a permanent change in Macquarie's dividend policy. Macquarie remains committed to maintaining an annual dividend payout ratio of between 50 to 60 per cent of net earnings attributable to ordinary shareholders. The future rate of franking remains subject to the composition of income but it is likely that dividends will remain unfranked for the foreseeable future.

The Macquarie model

Macquarie is a global financial services specialist that focuses over the medium term on a number of key fundamentals:

- the provision of services to clients
- the alignment of interests with shareholders, investors and staff
- a conservative approach to risk management
- incremental growth and evolution
- maintaining operations that are diversified by business and geography
- an ability to adapt to change.

Consistent with the Macquarie model, the Company has continually adapted to changes in the markets in which it operates. During the year, businesses continued to pursue growth opportunities in new markets, develop new and expanded product offerings and make selective acquisitions. These initiatives drive the continued evolution of the business.

Chairman and Managing Director's Report

continued

Risk management

Macquarie's strong culture of risk management is embedded across all operating groups and divisions. Business heads are responsible for identifying risks within their businesses and ensuring they are managed appropriately. This culture is supported by an independent Risk Management Group.

Central to Macquarie's risk management approach is the deep analysis of worst-case outcomes and determining whether such risks are acceptable. This is often achieved through the application of specific stress tests.

Macquarie's key risk management principles have remained largely the same for over 30 years and have served the Group well through a range of market cycles. These principles are a key factor in the Company's record of unbroken profitability.

As Macquarie continues to grow globally, the risk management framework adapts to maintain effective risk oversight.

Our people

A key factor in Macquarie's long-term growth is its ability to attract and retain high quality staff, with remuneration based on performance. This delivers long-term shareholder returns by ensuring the interests of staff and shareholders are aligned. Macquarie's culture and people are the foundation for the continued success of the business.

Staff numbers increased by 6 per cent from 14,657 at 31 March 2010 to 15,556 at 31 March 2011 reflecting the expanded global platform. Average staff numbers increased 17 per cent on the prior year. As noted, 53 per cent of staff are now based outside Australia with 24 per cent in the Americas, 18 per cent in Asia and 11 per cent in Europe, Middle East and Africa.

Sustainability

In all of its activities, Macquarie seeks to act responsibly. While it aims to build sustainable value for shareholders, clients and staff, it places great importance on the manner in which its business is conducted.

Macquarie recognises that a company is assessed not only on its financial performance but by its standards of corporate governance, the conduct of its staff, the quality of its workplace, its environmental footprint and its level of community engagement.

Further information regarding Macquarie's performance against these wider environmental, social and governance (ESG) objectives is summarised in the Sustainability report.

David Clarke AO

Former Chairman David Clarke resigned as Chairman of Macquarie Group and Macquarie Bank on 17 March 2011 due to ill health, ending a remarkable 40-year career with Macquarie. David passed away on 8 April 2011. His contribution not only to Macquarie but the corporate and not-for-profit sectors was widely acknowledged in Australia and internationally.

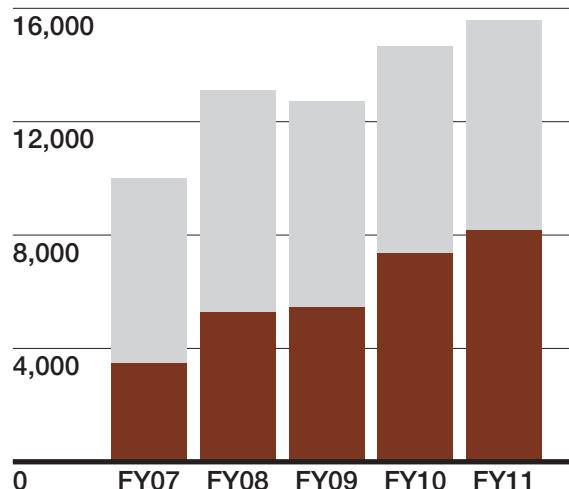
David was one of Macquarie's great leaders. He joined an organisation of 12 people and left it with staff of over 15,500 operating out of over 70 offices in more than 28 countries. David helped build a successful global operation and played a key role in developing the broad business strategies, recruitment and remuneration policies, risk management framework and professional and ethical standards which continue today.

In addition to his many achievements at Macquarie, David made an enduring contribution to Australian business and the financial services industry and played a transformational role in the not-for-profit sector, through his own personal philanthropy and his leadership of the Macquarie Group Foundation.

Macquarie pays tribute to David on page 10 of this report.

Staff numbers

International ■ Australia ■



Board and management

Kevin McCann was appointed Chairman of Macquarie Group and Macquarie Bank on 17 March 2011 following David Clarke's resignation. Kevin has been a Director of Macquarie for 14 years and served as acting Chairman of Macquarie Group and Macquarie Bank for nine months from 27 November 2008.

Subsequent to year end, Macquarie announced that Diane Grady would join the Macquarie Group and Macquarie Bank Boards on 19 May 2011. Diane is an experienced company director and her appointment results in the Macquarie Group Board comprising nine members, eight of whom are Independent Directors and three of whom are women.

Michael Carapiet, Executive Chairman of Macquarie Capital and Macquarie Securities Group, announced his intention to retire in July 2011 after 22 years with Macquarie. Michael has been central to Macquarie's global expansion, the growth of the Macquarie Capital business and the development of Macquarie's infrastructure advisory and funds businesses. The Board thanks Michael for his outstanding contribution and wishes him all the best for the future.

Roy Laidlaw will assume Michael's role as Executive Chairman of Macquarie Securities Group, while continuing in his current position as Group Head of Macquarie Capital. Roy's position as Group Head of Macquarie Securities will be assumed by Stevan Vrcelj, currently Head of Cash Equities in Macquarie Securities.

In July 2010, Tim Bishop, US Country Head; Garry Farrell, Head of CAF; and Stevan Vrcelj were appointed to the Executive Committee.

Outlook

Continuing market uncertainty makes forecasting difficult.

The net profit contributions for Macquarie Securities Group, Macquarie Capital, Fixed Income, Currencies and Commodities and Corporate and Asset Finance Group for the year ending 31 March 2012 are currently expected to be up on the prior year. The net profit contributions for Macquarie Funds Group and Banking and Financial Services Group for the year ending 31 March 2012 are currently expected to be broadly in line with the prior year.

The full year 2012 result for each operating group will vary with market conditions, in particular for Macquarie Capital and Macquarie Securities which are assuming better market conditions. Movements in foreign exchange rates will impact the contribution of each group.

The Group's compensation ratio and effective tax rate are expected to be consistent with historical levels. Higher cost of funding reflecting market conditions and high liquidity levels are also expected to continue.

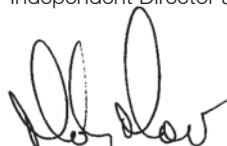
Overall, it is currently expected that the result for the Macquarie Group for the year ending 31 March 2012 will be an improvement on the prior year. However, the final result will be dependent upon market conditions, particularly for Macquarie Capital and Macquarie Securities which are assuming better market conditions than the prior year. The full year 2012 result also remains subject to a range of other challenges including increased competition across all markets, the cost of a continued conservative approach to funding and capital, and regulation, including the potential for regulatory change.

Over the medium term, Macquarie's businesses are increasingly well positioned to benefit from future growth due to its position as a global specialist, growing global market share, strength in diversity, a balance sheet positioned for growth and an effective risk management culture.

On behalf of the Board we would like to take this opportunity to thank our staff for their commitment during the year. The result reflects considerable effort from the entire Macquarie Group in continuing difficult markets.



Kevin McCann AM
Independent Director and Chairman



Nicholas Moore
Managing Director and Chief Executive Officer
Sydney
29 April 2011

Vale: David Clarke AO (1942-2011)

Macquarie Group's former Chairman David Clarke passed away on 8 April 2011. Under David's leadership over 40 years, Macquarie grew from an organisation of 12 people based in Sydney to a global enterprise of 15,500 employees operating out of over 70 offices in more than 28 countries.

We take this opportunity to remember David as one of Macquarie's founding fathers and pay tribute to his remarkable achievements.

David's contribution has been pivotal to Macquarie's success. He will also be remembered for his role in the transformation of the Australian financial services industry and, as important, his commitment to corporate philanthropy and extensive community involvement.

There are two ingredients to business success, David Clarke told a gathering of young entrepreneurs in 2003: vision and people. "You have to have a clear idea of what you want to do," he said. "And you must find the best people to help you do it."

When David joined Macquarie's predecessor, Hill Samuel Australia, as Joint Managing Director in 1971 at the age of 29, he knew his vision, to provide advisory and investment banking services of an international standard to the Australian market, was ambitious.

"The industry then was by no means sophisticated," he said. "Corporate finance in Australia was very under-developed. Anyone who seriously wanted to raise money got on a plane and went to New York or London. We had no stockbroking capability, no foreign exchange trading, no real corporate advisory business and a very limited securities trading base. We had \$A2 million in capital and a staff of just 12 people. So there were a few hurdles to overcome."

It took 13 years to build each of the businesses required to fulfil this original vision. By then, Hill Samuel Australia was growing faster than its British merchant banking parent, while deregulation was changing the Australian financial services landscape.

"It was our chance to become independent," David said. As the Hill Samuel Australia team opted to pursue an Australian banking licence, David negotiated the separation from head office in London.

On 1 March 1985, Macquarie Bank Limited opened its doors for business, with David as its Executive Chairman. The new Australian bank took its name from one of the nation's early leaders, Governor Lachlan Macquarie, and adopted as its logo the punched Spanish coin he used to solve a currency shortage in 1813. "Macquarie was the absolutely obvious choice," David said. "He started banking in Australia, he started currency in Australia and he was a good innovator. Innovation has always been part of the Macquarie culture."

Macquarie thrived in the new competitive environment and in the ensuing years moved progressively into new businesses and geographies. "Our growth and development has been a logical progression, a case of evolution rather than revolution," David said. While he couldn't foresee what Macquarie would become, he was confident of its growth. "I knew that if we were doing the basics right, we would grow well and we would become big."

The 'basics' are what David considered his greatest contribution to Macquarie. They are the policies put in place in the early Hill Samuel Australia days, which continue to drive Macquarie's success today.

They included recruiting the best quality people and fostering an environment which encouraged both innovation and accountability. "Essentially if someone has come up with a good idea, there's a 'can do' philosophy," David said. "It means people can get out there and build their own business and create something. Our flat management structure provides an environment for ideas and a culture of maximum accountability. It's a fundamentally different philosophy."

To attract the best people, David initiated a remuneration policy that rewarded achievement. "The profit sharing plan has been in operation for close to 40 years without too many changes," he said. "It's about sharing the rewards of success between the shareholders and the staff. If the organisation does well because you've done well for the organisation, then you'll share in those rewards. It conveys a sense of equity and fairness."

While encouraging entrepreneurial freedom, David was careful to implement strong risk management principles, which were formalised in later years with the establishment of the Risk Management Group.

"We have always had right from day one an appreciation that risk is very important," he said. "If you look at the CEOs in order, every one of us has a very heightened awareness of the importance of managing risk. Some of our competitors don't have that."

"The key thing is to make sure the risk management systems protect the organisation against a relatively extreme circumstance. Everyone can protect the organisation in benign conditions. You need something that's going to protect the organisation where it's extreme."

One such circumstance occurred on 20 October 1987, which David recalled as "the most horrendous day in my life in the organisation. We all went home one night and then the next morning when we come back the stock market is down 25 per cent. Contemplate the amount of wealth that is destroyed by that. That's where our risk management system stood us in very good stead. We hadn't over-extended ourselves and so there wasn't the sense of panic there might have been elsewhere around the market."

Similarly, Macquarie's risk management framework enabled it to remain profitable during the recent global financial crisis. David's leadership was marked by 40 years of unbroken profitability.

Another of David's lasting achievements was his contribution to the development of the What We Stand For document, which evolved into Macquarie's goals and values, a long-standing cultural blueprint. "The six points of What We Stand For have endured for a long, long time – things like integrity, high professional standards, giving superior service to our clients, teamwork rather than individual superstars, earning profits obviously. We spent a lot of time developing What We Stand For and we constantly reinforce those goals and values with our staff," he said.

In addition to his many business achievements, David leaves a substantial philanthropic legacy. He had a major personal involvement with a range of community organisations, including the Salvation Army, Opera Australia and Social Ventures Australia. He was a key figure in the transfer of business skills to the not-for-profit sector and drove initiatives to improve the sector's sustainability.

He also inspired an enduring culture of community engagement among Macquarie staff, dating back to 1978 when he established one of Australia's earliest corporate foundations, the Hill Samuel Charitable Fund. When Macquarie Bank was formed in 1985, there was no question that the new entity should have a philanthropic arm, which David chaired for 26 years.

Since then, the Macquarie Group Foundation and Macquarie staff have contributed more than \$A145 million to community groups globally, as well as thousands of hours in volunteering and pro bono support. David promoted a model of 'engaged philanthropy', enabling not-for-profit organisations for the first time to harness a company's business expertise, strategic advice, networks and resources, as well as its financial support.

"I was always taught by my parents and grandparents that if you are successful in life, you have an obligation to give back," David said. "The Foundation is an important and long-standing part of Macquarie's philosophy. There are thousands of our staff who are very much involved in volunteering, donating and doing things for the not-for-profit sector. We would be right up there worldwide, which is something that makes me very proud."

David tendered his resignation as Chairman of Macquarie Group Limited and Macquarie Bank Limited on 17 March 2011, due to ill health. In the weeks before he passed away, he reflected on what he had learned as a 22-year-old Harvard Business School student that continued to drive him and Macquarie so many years later. "There are two things that stand out," he said. "One of the concerns I'd had going to Harvard was, on the one hand I wanted to be successful in business, on the other hand ethical standards had been inculcated in me, particularly by my grandfather, and how was I going to reconcile those two things? One of the professors showed the path as to how you can be successful without compromising ethical standards in any way.

"And another professor told me: 'Don't accept anything. Question everything'. That's always been very much part of the culture at Macquarie."

He voiced only one regret. A proficient rugby player, he did not play the sport again when he returned to Australia from his Harvard studies. Others he had played with went on to represent Australia. David was to make his mark in other fields.

Macquarie – the global specialist

Macquarie has built a uniquely diversified business over the 42 years since inception. It is a global business built upon a range of products and sectors in which it has world leading expertise.

Macquarie provides its clients with in-depth knowledge, innovation and leadership developed over decades, backed by the extensive research, advisory, financing and execution capabilities of a global team.

Its leading market positions have enabled it to participate in some of the largest transactions both in Australia and internationally across a wide range of sectors.

Some of the areas where Macquarie is seen as a **global specialist** include **resources, agriculture and commodities, energy and infrastructure** together with a deep knowledge of **Asia-Pacific** financial markets.

When Macquarie decided to take the skills it had developed in Australia global in the early 1990s, expansion into Asia was the logical progression. Over the ensuing years, most of Macquarie's businesses have taken opportunities to grow their businesses throughout the region. The result today is strong market positions across all major businesses in Asia-Pacific and, including Australia, a team of more than 10,200 staff across 26 locations. Macquarie is seen as an **Asia-Pacific** specialist.

Macquarie's research offering of more than 1,200 stocks is one of the largest in the Asia-Pacific region and highly-ranked for the accuracy of its stock selections. With one of the largest dedicated equities sales teams in Asia, Macquarie was recently ranked by Bloomberg as the **No. 1 broker in Asia for execution**. It also holds the **No. 1 position for market share in listed warrants** in Singapore and Korea, as well as top three positions in Australia and Hong Kong.

Macquarie has worked on some of the region's most significant transactions including the Hong Kong IPO of the Agricultural Bank of China Limited, as part of a \$US22.1 billion dual listing, the world's largest-ever IPO. It is increasingly using its deep experience and local knowledge of the Asia-Pacific region to facilitate cross-border transactions between this vital region and the rest of the world. The recent IPO of Powerland, a Chinese leather goods manufacturer and retailer, on the Frankfurt Stock Exchange which demonstrated Macquarie's ability to bring product from Asia to European investors and provide access to the world's capital markets for its Asian clients.

Fixed Income, Currencies and Commodities (FICC) offers a range of services in Asia and has recently established its regional hub in Singapore. Across Asia, FICC's services include Asian currencies, corporate and sovereign debt trading, commodity risk management across metals, energy and agricultural commodities, physical oil, physical coal and physical iron ore trading and marketing, foreign exchange services, origination of emissions trading projects, futures services and access to dry freight markets. Macquarie has been granted banking licences in Singapore and in Korea.

Macquarie also manages a number of Asia-specific funds, with infrastructure a particular focus. Its first fund in Asia, the Macquarie Korea Infrastructure Fund which was established in 2002, is one of the leading private sector infrastructure funds in Korea. Macquarie now has eight infrastructure funds in the region. The Macquarie SBI Infrastructure Fund has completed **\$US1.2 billion of fundraising to invest in India**. During the year, Macquarie's Chinese real estate fund raised **\$US1 billion to invest in retail real estate in China**.

Macquarie **pioneered its infrastructure business over 20 years ago** and has developed specialist expertise that is recognised globally. Commencing with infrastructure advisory in Australia in 1990, Macquarie is now the **largest infrastructure funds manager globally** (Towers Watson Global Alternatives Report, June 2010). It has more than \$A90 billion in infrastructure assets under management and over 400 experienced professionals across Australia, Asia, Europe and North America dedicated to sourcing and managing infrastructure investments.

Macquarie was recognised as the **Infrastructure Manager of the Year** by Financial News in October 2010 (2010 Annual Financial News Awards (European Institutional Asset Management)) and has received numerous awards over the years for its infrastructure management, advisory and research capabilities. Most recently, its **infrastructure equities research team was ranked No. 1 by Australian and Asian investors** in the 2010 Peter Lee surveys and by Asian and European investors in the 2010 Greenwich Survey of Asian Equities. An infrastructure advisory team of more than 230 professionals operates across 16 countries.

In response to investor demand, Macquarie has grown its unlisted infrastructure funds business and raised substantial funds to invest in infrastructure assets and businesses around the world. Three **European infrastructure funds have raised €7.3 billion to invest in infrastructure opportunities** in Europe. Macquarie commenced fundraising for its fourth European infrastructure fund during the year. Emerging markets are another key focus with funds established in recent years in the **key markets of China, India, Mexico and Russia**. Macquarie is a leading manager of global infrastructure securities, with the largest dedicated team globally. The team manages approximately \$A3 billion of AUM for clients located in nine countries.

Macquarie's expertise in **resources, agriculture and commodities** has been developed over more than 30 years since **commencing bullion trading in 1978**. A comprehensive platform operates across four continents and covers the spectrum of commodities markets, including agriculture, energy, metals, environmental and freight. Macquarie's market leading team of **100 global mining finance specialists** offers debt, equity capital and price risk management solutions to producers and consumers of metals, bulk commodities and upstream oil and gas. The team includes in-house geologists, petroleum and mining engineers. There is also a financial advisory team of over 160 professionals in 10 countries which has worked on more than 440 deals valued at over \$A150 billion over the past three years.

Macquarie is the longest standing provider of trading and risk management services to agricultural producers, consumers and market participants. It pioneered the over-the-counter market in agricultural derivatives in the early 1980s and has **actively traded in global agricultural commodity markets for more than 20 years**. Its expertise covers the full spectrum of agricultural commodity classes. In funds management, Macquarie manages a portfolio of **more than 3 million hectares of pastoral assets** through the Macquarie Pastoral Fund which has over \$A700 million in assets under management.

Macquarie also has one of the longest track records globally in metals markets, where it has operated for more than 30 years. Macquarie provides 24-hour trading and price-making for base and precious metals and is a principal provider of liquidity globally. Its **Metals and Mining research team was ranked No. 1 by European and US Investors** in the 2010 Greenwich Survey of Australian equities.

A natural extension of Macquarie's commodities expertise was the development of its **energy** presence. Macquarie has actively traded in energy markets for more than a decade, with capabilities in products such as crude oil and refined products, natural gas, power, LNG and natural gas liquids.

It has built a physical trading business through organic growth and strategic acquisitions. The Cook Inlet Energy Supply acquisition in 2005 enabled Macquarie's first physical natural gas trade in the US while the 2009 acquisition of Constellation Energy's downstream natural gas trading operations significantly boosted Macquarie's presence in this market. Macquarie is now the **No. 4 physical gas marketer in North America** and the highest-ranked non-producer.

Macquarie's physical energy trading expertise encompasses natural gas, liquefied natural gas, power, oil, coal and ethanol. A US physical oil business was established in 2010, with a Houston-based Latin American origination team added in January 2011. Physical oil trading and marketing teams also operate from Singapore, Calgary and London.

Macquarie's energy advisory presence was enhanced by the acquisitions of Orion Financial Services in 2007 and Tristone Capital in 2009. It has been involved in notable transactions including, in Australia, as financial adviser to Origin Energy Limited on the acquisition of the Integral Energy and Country Energy retail businesses from the NSW state-owned energy network businesses and their binding GenTrader arrangements with Eraring Energy. In Canada, Macquarie was financial advisor to Legacy on the \$C583 million acquisition of CanEra as well as co-lead manager and co-bookrunner for the \$C271 million financing and exclusive financial advisor to Result Energy Inc. on its \$C480 million sale to PetroBakken Energy Ltd. Macquarie ranked No. 1 for oil and gas ECM in Canada in the first quarter of the 2011 calendar year with a market share of 15 per cent (Bloomberg). It raised almost \$US370 million over seven transactions.

A participant in the **developing environmental markets since 1996**, Macquarie also provides financial solutions to help corporate and government customers manage their environmental obligations. A top three carbon emissions trader globally (by volume and value), Macquarie was awarded **Best Trader by its international peers in the 2011 Carbon Markets Awards** sponsored by Thomson Reuters/Point Carbon.

In addition to its areas of global expertise, Macquarie has developed leading businesses in other sectors. Macquarie substantially increased its **financial institutions** sector (FIG) expertise with the acquisition of Fox-Pitt Kelton Cochran Caronia Waller, a FIG specialist, in 2009. Since that time Macquarie has been involved in a number of significant FIG transactions. Apart from the Agricultural Bank of China, it was joint bookrunner and underwriter for the \$US1.2 billion Indonesia rights issue by PT Bank Negara, the **largest finance industry ECM deal in South-East Asia** in 2010 and in Australia, it was adviser to AXA Asia Pacific Holdings on the \$A13.3 billion acquisition of its business by AXA SA and AMP, the **largest financial services transaction in Australian corporate history**.

Macquarie has been involved in significant **telecommunications, media, entertainment and technology** sector transactions globally. During the year, it was financial adviser to a consortium of Macquarie-managed funds on the acquisition of Ceske Radiokomunikace, a radio tower business in the Czech Republic. This transaction was **one of the largest telecommunications transactions in Central and Eastern Europe** in calendar 2010.

Macquarie has been a long-standing **real estate** asset manager and financial advisor, **pioneering the development of the listed REIT market in Australia**. Macquarie manages a number of real estate funds including the recent addition of a second Macquarie Chinese real estate fund which raised \$US1 billion to invest in retail shopping centres in China. Macquarie also has an associate in MGPA which is an independently managed private equity real estate investment advisory company. MGPA is focused on real estate investment in Europe and Asia and currently manages \$US10 billion of assets throughout these regions. Macquarie's real estate advisory team was senior co-manager on the \$US2.28 billion common equity follow-on offering for General Growth Properties during the year, the largest REIT follow-on in history.

In the **industrials** sector, Macquarie has long played a leading role in some of Australia's largest transactions. Recent roles include lead financial adviser, lead debt arranger and debt lender to The Carlyle Group and TPG Capital on the \$A2.8 billion acquisition of Australian private healthcare provider Healthscope Limited. Macquarie was also adviser to Bilfinger Berger on the sale process of its Australian subsidiary, Valemus Limited (formerly Bilfinger Berger Australia) to Lend Lease Group for \$A1.2 billion.

Macquarie has taken the **debt expertise** it has developed in the Australian market and expanded its presence to Asia, the US and Europe, and is continuing to build its debt capital markets activities globally. In the last three years, the business has undertaken **over 145 debt-related deals with deal value in excess of \$A105 billion**, and has established over 300 direct relationships with financial institutions from debt raising activities. During the year, Macquarie participated in its first high yield bond offering in Asia, for Powerlong Real Estate Holdings Limited, and was involved with 15 DCM transactions in the US.

In the US Macquarie also specialises in high yield bonds, leveraged loans, distressed credit, special situations, project financings and trade claims. Since inception in 2009, Macquarie has traded in over \$US15 billion of bonds and leveraged loans across 120 issuers. An Asian markets credit trading specialty was added in 2010, along with credit trading teams in London and Sydney.

Macquarie is a leading provider of specialist **lending and leasing** services, with **over \$A17 billion of loans and assets under finance** globally. It has significant expertise in aviation, IT&T, rail, manufacturing, energy, motor vehicles and corporate debt and is one of the largest providers of motor vehicle finance in Australia.

Macquarie's **retail financial service offerings** in Australia and Canada continue to grow with over 1.04 million clients globally, including intermediaries, advised and direct. It maintains a **No. 1 position for Australian full-service retail stockbroking** based on market share and trading volumes (IRESS). In Canada, Macquarie was named **No.1 National Independent Canadian advisory firm** and ranked third of all investment advisory firms (Investment Executive Brokerage Report Card 2011). Macquarie has retail deposits of almost \$A27 billion and has almost \$A23 billion of funds under administration in the Macquarie Wrap. Macquarie Wrap has ranked in the top four platforms in Australia, in terms of inflows, for the past five years (Morningstar). Macquarie is able to provide its retail and high net worth clients with unique opportunities to invest in the markets and sectors where it has global specialist expertise, including the Asia-Pacific region and resources, agriculture and commodities, energy and infrastructure sectors.

Regional activity

Australia	Asia
<ul style="list-style-type: none"> – Macquarie Capital (MacCap) was financial adviser to Origin Energy Limited on the acquisition of the Integral Energy and Country Energy retail businesses from the NSW state-owned energy network businesses and their binding GenTrader arrangements with Eraring Energy – MacCap was financial adviser to AXA Asia Pacific Holdings in relation to the \$A13.3 billion acquisition of their Asian business by AXA SA and their Australian and New Zealand businesses by AMP. This was the largest financial services transaction in Australian corporate history based on equity value at completion – MacCap and FICC acted as joint lead managers on the \$A550 million five-year Australian bond financing for the Dampier-to-Bunbury pipeline in Western Australia – FICC was awarded Best Domestic FX Providers – Australia; second place Best For Innovative FX Products and Structured Ideas; third place Best FX Prime Broking Services (AsiaMoney Corporate FX Poll 2010) – BFS' Macquarie Pastoral Fund purchased an additional three properties in March 2011 in north-western NSW from Clyde Agriculture, further expanding its rural property portfolio. This acquisition took its total pastoral holdings to 3.15 million hectares – BFS retail deposits increased 72 per cent to \$A26.6 billion at 31 March 2011 – MFG was ranked first among individual managers by Rainmaker based on the number of Australian institutional mandates awarded in the year to 31 December 2010 – MFG experienced increased inflows into its retail structured products, with over \$A300 million raised during the period – CAF acquired the GMAC auto finance portfolio worth approximately \$A1 billion – CAF funded, originated or acquired \$A3.8 billion of corporate debt and finance leasing opportunities – MSG maintained its position in Australian equities of No. 1 overall for research and sales to Asian institutional investors (Peter Lee Associates 2010) and No. 1 equity research/advisory share for US and European institutional investors (Greenwich) – MSG derivatives business was the No. 2 provider for listed warrants based on market share (ASX) 	<ul style="list-style-type: none"> – MacCap was joint sponsor, joint bookrunner and joint lead manager for the Hong Kong-listing of the Agricultural Bank of China Limited as part of the \$US22.1 billion dual listing on the Hong Kong and Shanghai stock exchanges, the world's largest-ever IPO – MacCap was exclusive financial adviser to a consortium led by Daewoo Engineering & Construction Co., Ltd. for its \$US1.5 billion greenfield financing of Sosa-Wonsi Double-Track Rail build-transfer-lease (BTL) project, one of the largest BTL projects in Korea. The transaction was awarded Project Finance Asia-Pacific Transportation Deal of 2010 by Euromoney – Macquarie Bank Limited was granted a bank branch licence by the Monetary Authority of Singapore and an extension of the Macquarie Bank Limited Seoul Branch in Korea to include over-the-counter derivatives – FICC continued to develop its regional hub in Singapore comprising its Asian Markets, Fixed Income and Currencies, Agricultural Commodities and Energy Markets businesses – MIRA continued the build out of its Asian platform, raising over \$A1.5 billion in equity for unlisted funds focused on Korea, China, and India and investing approximately \$A1.0 billion in equity across Korea, Taiwan and India – Macquarie Asia New Stars Fund won the 2011 Lipper Award for the Best Asia-Pacific Small-Mid Cap Equity Fund based on its three-year performance to 31 December 2010 – Macquarie's Asian Alpha hedge fund strategy experienced increased flows during the period and exceeded \$A1.0 billion in AUM following 31 March 2011 – BFS launched the Agricultural Opportunities 2011 Investment Strategy to its Religare- Macquarie Private Wealth clients providing Indian investors unique access to a range of global agricultural and food manufacturing investment opportunities – BFS Precision Marketing signed a joint venture with Manulife Indonesia to enhance Manulife's tailored insurance marketing product – CAF extended its IT&T leasing capacity into Malaysia, Hong Kong, Singapore and India – CAF funded over \$A700 million of leased assets – MSG was rated the No. 1 execution broker in Asia per Bloomberg's annual survey on execution capability – MSG derivatives business maintained top three market share positions in listed warrants in Korea, Singapore and Hong Kong

Americas	Europe, Middle East and Africa
<ul style="list-style-type: none"> – MacCap acted as joint bookrunner and documentation agent on the \$US1.5 billion term loan and \$US300 million revolving credit facility for General Growth Properties, and was senior co-manager on the \$US2.3 billion common equity follow-on offering, the largest REIT follow-on in history – MacCap acquired Presidio Partners, a specialist real estate private capital business. It also announced the acquisition of REGAL Capital Advisors, LLC, a boutique investment advisor focused on the gaming, lodging and leisure industries – MacCap was developer, underwriter and financial advisor on the \$US2.1 billion Denver Fastracks Eagle P3 project, which was awarded North American Transport Deal of the Year in 2010 by Project Finance Magazine – FICC's Energy Markets Division expanded its global physical oil trading platform with the addition of a Calgary-based crude oil marketing team and Latin American oil liquids origination and marketing team based in Houston – FICC's Futures Division obtained an ICE US membership allowing direct interface for futures clearing – BFS launched its first investment product tailored to the Canadian retail market. Macquarie EquityPlus is an interest-only securities financing program – Macquarie Private Wealth Canada was named No.1 National Independent Canadian advisory firm and ranked third of all investment advisory firms (Investment Executive Brokerage Report Card 2011) – Delaware Investments experienced strong net inflows and capital appreciation of approximately \$US15.0 billion during the period – Delaware Investments was recognised for delivering consistently strong risk-adjusted returns, relative to peers, with three group awards in the 2011 Lipper Fund Awards – Macquarie Specialised Investment Solutions continued the expansion of its wholesale business, with over \$US1.0 billion written in fund-linked products during the period – Strong securitisation activity by CAF with \$A1.2 billion of motor vehicle leases and loans securitised during the period, including two issuances in the US – CAF's IT&T business completed its first capital markets securitisation of equipment lease receivables in the US in March 2011, issuing \$US0.3 billion of securities – CAF funded, originated or acquired \$A1.8 billion of corporate debt and finance leasing opportunities – Macquarie was ranked No. 3 in the Financial Times/ StarMine broker rankings rating the accuracy of research analysts' stock picks in the US 	<ul style="list-style-type: none"> – MacCap was financial adviser to a consortium of Macquarie-managed funds on the acquisition of 100 per cent of Ceske Radiokomunikace. The transaction represents one of the largest telecommunications transactions in Central and Eastern Europe in calendar year 2010 – MacCap was financial adviser to Macquarie-managed funds on the acquisition of 100 per cent of Thyssengas from RWE. Thyssengas is the owner and operator of a regulated supra-regional gas transmission network in Germany, transporting almost 10 billion cubic metres of natural gas annually to 56 downstream networks – MacCap was exclusive financial adviser and sole bookrunner to the Government of the Republic of Ghana for a \$US215 million sell down in AngloGold Ashanti Limited ordinary shares by way of an accelerated bookbuild – The Macquarie platform was expanded to include market coverage across FICC-related structured derivative products in Germany, Switzerland and Italy – FICC was awarded Best Trader by its international peers in the 2011 Carbon Markets Awards sponsored by Thomson Reuters/PointCarbon – MFG acquired INNOVEST Kapitalanlage AG, a leading Austrian securities asset manager, which won a group award in the 2011 Lipper Fund Awards – MIRA was again named Infrastructure Manager of the Year in the 2010 Annual Financial News' Awards (European Institutional Asset Management) – MIRA announced eight European investments valued at over \$A2.0 billion by its listed and unlisted funds and commenced fund raising for its fourth European infrastructure fund – CAF completed the acquisition of a portion of the International Lease Finance Corporation's aircraft leasing portfolio with aircraft on lease across multiple jurisdictions – CAF funded approximately \$A1.9 billion of corporate debt and leasing opportunities – MSG's Derivatives DeltaOne product platform in Europe has grown to over 40,000 listed products on issue since the product launch in August 2010 – MSG expanded its research coverage from 270 to more than 400 stocks following the acquisition of the cash equity business of German private bank Sal Oppenheim

About Macquarie

Macquarie Group is a global financial services provider. It acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world.

Macquarie has built a uniquely diversified business. It has established leading market positions as a global specialist in a wide range of sectors, including resources, agriculture and commodities, energy and infrastructure with a deep knowledge of Asia-Pacific financial markets.

Alignment of interests is a longstanding feature of Macquarie's client focused business demonstrated by its willingness to both invest alongside clients and closely align the interests of shareholders and staff.

Operating out of over 70 offices in more than 28 countries, Macquarie's diverse range of services includes corporate finance and advisory, equities research and broking, funds and asset management, foreign exchange, fixed income and commodities trading, lending and leasing and private wealth management.

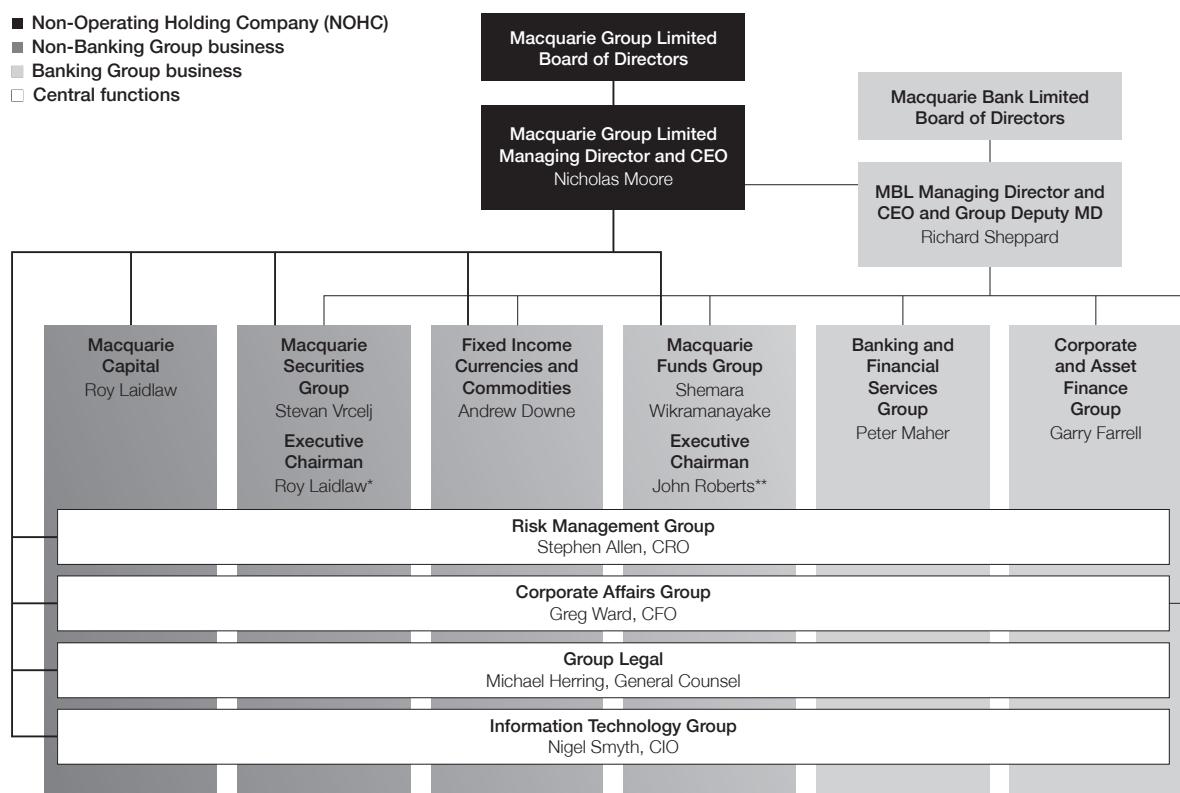
Management approach

Macquarie's strength lies in its unique structure and management style which enables businesses to exercise significant operating freedom balanced by limits on risk and the adherence to professional standards. Macquarie's management approach fosters an entrepreneurial culture among staff.

Strong prudential management is fundamental to this approach. Central management focuses on risks to Macquarie which may arise from market and industry influences and on issues of medium and long-term significance.

Other core elements of Macquarie's approach are:

- the encouragement of high ethical and professional standards
- commitment to clients
- commitment to growth
- the recruitment, retention and motivation of quality staff
- the alignment of staff rewards with those of shareholders
- transparent and comprehensive reporting including financial reporting and risk reporting.



*Appointment effective July 2011, upon Michael Carapetis's retirement

**Mr Roberts' role is related to Non-Banking Group businesses

Key services

Macquarie Securities Group

- Institutional cash equities
- Derivatives DeltaOne trading
 - Institutional and retail derivatives
 - Corporate action trading
 - Arbitrage trading
 - Synthetic products
 - Global Securities Finance
 - Capital management, collateral management and securities borrowing and lending

Macquarie Capital

- Corporate finance and advisory
- Equity and debt capital markets
- Private equity placements
- Principal investments

Macquarie Funds Group

- Investment management across:
 - Fixed interest and currencies
 - Equities, including infrastructure securities
 - Funds of private equity funds
 - Multi-asset allocation solutions
- Direct asset funds management including:
 - Infrastructure
 - Real estate
 - Private equity
- Fund and equity-based structured products including:
 - Capital protected investments
 - Fund-linked products

Fixed Income, Currencies and Commodities

- Metals and energy capital
- Energy markets
- Metals markets
- Agricultural markets
- Fixed income, currency and credit markets
- Futures
- Environmental financial products
- Asian and emerging markets

Banking and Financial Services Group

- Wealth management and private banking
- Cash management services
- Full service and online broking
- Intermediary products including administrative services, investment products and life insurance
- Business banking
- Mortgages

Corporate and Asset Finance Group

- Corporate and asset-backed lending
- Real estate lending
- Leasing
- Specialised asset financing
- Asset lifecycle management services
- Equipment trading and remarketing

Operating group and division contribution to profit

	Net profit contribution (\$Am)	
	2011	2010
Macquarie Securities Group	175	580
Macquarie Capital	281	(56)
Macquarie Funds Group	602	813
Fixed Income, Currencies and Commodities	575	827
Corporate and Asset Finance Group	501	255
Banking and Financial Services Group	275	261
Real Estate Banking Division	(42)	(148)

Note: 2010 net profit contributions for Macquarie Capital, Macquarie Funds Group, Corporate and Asset Finance Group and Real Estate Banking Division have been adjusted to reflect restructures during 2011.

Operating groups and divisions

Macquarie Securities Group

Macquarie Securities Group (MSG) contributed \$A175 million to Macquarie's total profit from operating groups for the year to 31 March 2011. This was a decrease of 70 per cent on the prior year. It generated operating income of \$A1.3 billion, a decrease of 12 per cent on the prior year. The lower result was largely attributable to continued subdued equity market conditions throughout the course of the year.

The contribution from the **Cash Division** was 44 per cent down on the prior year as investor confidence continued to negatively impact market volumes. Secondary market commissions were in line with the prior year. Increased contributions from the US, Canadian and European platforms were offset by lower contributions from Australia and Asia while South Africa was flat. Total ECM fees were down significantly on the prior year with reduced activity in Australia and Europe. However, revenue from the US was up on the prior year and revenue from Asia was in line with the prior year. The result also reflects continued investment by the business in the build out of its cash equities platform globally.

The **Derivatives DeltaOne Trading Division** result was 149 per cent down on the prior year, primarily due to limited retail and institutional demand and difficult trading conditions. Despite subdued market volumes, the business continues to maintain its strong market share positions in key listed warrants markets: 1st in Singapore and Korea, 2nd in Australia and 3rd in Hong Kong. The business is also well positioned to benefit from a new derivatives platform in Europe following the acquisition of the Sal Oppenheim business (refer below). The result also reflects the investment by the business during the year in support infrastructure and the development and integration of new business activities.

During the year, MSG's global platform development focused on the integration of the two businesses it acquired from German private bank Sal. Oppenheim jr. & Cie. KGaA (Sal Oppenheim) and organic growth across its other businesses.

The Sal Oppenheim acquisitions were completed on 6 April 2010. The cash equities business comprises equities research, sales, trading and execution functions focused on continental Europe, with particular strength in Germany. The acquisition broadens MSG's pan-European business, bolstering its presence in key European markets and complementing existing operations. It expands the group's Euro stock coverage to over 400 stocks, 73 per cent of the Euro Stoxx 600, and continues MSG's growth in research coverage to more than 2,400 stocks globally, placing Macquarie in ninth position in terms of global research coverage.

The equity derivatives and structured products business complements Macquarie's existing Asian derivatives operation and adds a wider set of products to its growing European business. The business has market making and issuance operations on exchanges in Germany, Switzerland and Italy and provides MSG with access to one of the world's largest derivative markets. A significant amount of effort went into integrating the platform in the first half of the year. The platform now has more than 40,000 listed products on issue and continues to build market share.

Outlook

MSG currently expects its result for the year ending 31 March 2012 to be up on the prior year, subject to market conditions improving.

The Cash Division is well positioned to capitalise as market conditions improve. The division sees good growth opportunities in the medium to long term across all regions and in particular Europe and the US. MSG will seek to maintain or improve its client rankings across all regions. It continues to invest in electronic execution across key markets globally to enable continued expansion in its client offering.

The group expects conditions for Derivatives DeltaOne to remain challenging as investor demand remains subdued. The business maintains its strong presence in listed warrants and continues to develop its capabilities in new markets such as Germany and India. It will continue to invest in developing the institutional derivatives and DeltaOne product platform.

About Macquarie Securities Group

Cash Division

Operates as a full-service institutional cash equities broker in the Asia-Pacific region, South Africa and Canada. In the rest of the world it operates as a specialised institutional cash equities broker. It provides ECM products and services through a joint venture with Macquarie Capital Advisers.

Derivatives DeltaOne Trading Division

Combines the group's institutional and retail derivatives, structured equity finance, arbitrage trading, synthetic product businesses and global securities finance. Global securities finance includes capital management, collateral management and securities borrowing and lending.

Operating groups and divisions

Macquarie Capital

Macquarie Capital contributed \$A281 million to Macquarie's total profit from operating groups for the year to 31 March 2011, increasing from a loss of \$A56 million in the prior year. It generated operating income of \$A1 billion, an increase of 46 per cent on the prior year. The improved result was primarily due to lower impairment charges, partially offset by reduced advisory income.

The group advised on 547 transactions valued at \$A159 billion during the year. As outlined in the Regional Activity section of this report, Macquarie Capital advised on a number of significant transactions. Notable roles included:

- Financial adviser to a consortium of Macquarie-managed funds on the acquisition of 100 per cent of Ceske Radiokomunikace in the Czech Republic, one of the largest telecommunications transactions in Central and Eastern Europe in calendar year 2010
- Financial adviser to Macquarie-managed funds on the acquisition of 100 per cent of Thyssengas from RWE. Thyssengas is the owner and operator of a regulated supra-regional gas transmission network in Germany, transporting almost 10 billion cubic metres of natural gas annually to 56 downstream networks
- Financial adviser to a consortium comprising Global Infrastructure Partners, Industry Funds Management, QIC Global Infrastructure and the Abu Dhabi Investment Authority on the acquisition of the 99-year lease of the Port of Brisbane for consideration valued at \$A2.1 billion
- Financial adviser, debt arranger and equity bridge provider to Southern Cross Media Group Limited (SCM) for the takeover offer for Austereo Group Limited
- Sole sponsor, joint global coordinator, joint bookrunner and joint lead manager on the \$US369 million (\$US425 million post-greenshoe) IPO of China Suntien Green Energy Corporation Limited on the Hong Kong Stock Exchange. China Suntien is one of the leading clean energy companies in Northern China

- Sole global coordinator, sole sponsor, joint bookrunner and joint lead manager on the \$US204 million IPO of Global Dairy Holdings Limited on the Hong Kong Stock Exchange. Global Dairy is one of the top 10 locally-branded milk powder companies in the People's Republic of China
- Joint bookrunner on a \$US183 million equity offering for InterOil Corporation, an integrated energy company in Papua New Guinea
- Joint global coordinator, joint bookrunner and transaction adviser on the \$US433 million IPO of Royal Bafokeng Platinum Limited on the Main Board of the Johannesburg Stock Exchange
- Exclusive financial adviser and sole bookrunner to the Government of the Republic of Ghana for a \$US215 million sell-down in AngloGold Ashanti Limited ordinary shares by way of an accelerated book build
- Joint financial adviser to the administrators of The Griffin Coal Mining Company Pty Ltd on the sale of coal mining assets to Indian company Lanco Infratech Ltd. This transaction represents the largest inbound investment from an Indian company in the Australian resources sector
- Financial adviser to CoreLogic, a leading provider of information, analytics and business services, on the sale of employer services and litigation support businesses, collectively First Advantage, to Symphony Technology Group
- Sole sponsor, sole global coordinator and joint bookrunner on the \$US200 million Hong Kong IPO of Top Spring International Holdings Limited. The deal represented the first real estate IPO (Asia-ex Japan) in 2011.

Outlook

Macquarie Capital's performance is highly dependent on market conditions and M&A and capital market activities. Subject to market conditions improving, Macquarie Capital expects its result for the year ending 31 March 2012 to exceed the prior year. The result for the next period will be affected by movement of the Macquarie AirFinance business to the Corporate and Asset Finance Group.

About Macquarie Capital

Macquarie Capital
Provides corporate finance advisory and capital market services to corporate and government clients involved in public and private mergers and acquisitions, debt and equity fund raisings, private equity raisings and corporate restructuring. Advisory activities are aligned around areas of expertise in: infrastructure, utilities and renewables; resources (mining and energy); telecommunications, media, entertainment and technology (TMET); financial institutions; real estate; and industrials.

Operating groups and divisions

Macquarie Funds Group

Macquarie Funds Group (MFG) contributed \$A602 million to Macquarie's total profit from operating groups for the full year to 31 March 2011. This was a decrease of 26 per cent on the prior year.¹ MFG generated operating income of \$A1.4 billion over the same period, a decrease of 2 per cent on the prior year. The prior year included a number of gains from listed fund initiatives, while the current year benefited from a full year of earnings from Delaware Investments.

¹ Comparative figures have been restated for group restructures undertaken during the first half.

MFG had \$A305 billion in AUM as at 31 March 2011, broadly in line with its AUM at 31 March 2010. During the year to 31 March 2011, inflows and new mandates, particularly in listed equities and alternatives, were largely offset by the appreciation of the Australian dollar against major global currencies.

In October 2010, Macquarie further consolidated its asset management businesses, with Macquarie Capital Funds becoming a division of MFG, renamed Macquarie Infrastructure and Real Assets. The consolidation positioned MFG as Australia's largest asset manager and a top 40 asset manager globally. Following the consolidation, MFG was restructured into three divisions: Macquarie Investment Management, Macquarie Infrastructure and Real Assets and Macquarie Specialised Investment Solutions.

Macquarie Investment Management (MIM) focused on organic growth initiatives during the year. Its strong performance across asset classes was recognised in the 2011 Lipper Fund Awards (where MIM won 18 awards) and has continued to drive inflows. The division launched several new strategies, including a Global Income Opportunities strategy which utilises Macquarie and Delaware Investments' heritage fixed income investment capabilities.

In March 2011, Macquarie acquired INNOVEST Kapitalanlage AG (INNOVEST), an Austrian securities asset management firm serving institutional clients in Austria and Germany. INNOVEST enhances MIM's presence in Europe.

Macquarie Infrastructure and Real Assets (MIRA) raised more than \$A2 billion in new equity commitments during the year, with its listed and unlisted funds making 22 investments representing over \$A3.5 billion of equity. MIRA reviewed its investor engagement model following its integration into MFG, making term and structure changes which are resonating well with investors. The division also developed several new products in both core and emerging markets, closing a Chinese real estate fund and a Korean private equity fund specialising in infrastructure. It has commenced fund raising for its fourth European infrastructure fund and a Chinese infrastructure fund.

Macquarie Specialised Investment Solutions increased its market share in Australian retail structured products, with strong inflows during the period. Products in its suite include fund- and equity-linked products, lifetime income guarantee products and thematic products. In addition, the division successfully grew its wholesale business in the US and Europe writing more than \$A1 billion of fund-linked products during the period.

Outlook

Subject to market conditions, MFG currently expects its result for the year ending 31 March 2012 to be broadly in line with the prior year. Its focus will continue to be the organic growth of its asset base and leveraging existing operating support systems to drive cost synergies across the business.

About Macquarie Funds Group

MFG is a full-service asset manager offering a diverse range of products through three divisions:

Macquarie Investment Management

Offers investment management expertise across a number of asset classes including fixed interest, currencies, equities, infrastructure securities, funds of private equity funds and multi-asset allocation solutions. It delivers a full-service offering to both retail and institutional clients in Australia and the US, with selective offerings in other regions.

Macquarie Infrastructure and Real Assets

Manages a range of direct asset funds including infrastructure and real estate funds. Its client base primarily comprises global pension and superannuation funds but also includes other institutions and governments.

Macquarie Specialised Investment Solutions

Manufactures and distributes a range of fund- and equity-based structured products including capital-protected investments and associated lending arrangements, fund-linked products, lifetime income guarantees and alternative funds. The division is recognised for product innovation, with a strong track record of delivering tailored solutions to the market.

Operating groups and divisions

Fixed Income, Currencies and Commodities

Fixed Income, Currencies and Commodities (FICC) contributed \$A575 million to Macquarie's total profit from operating groups for the year to 31 March 2011, a decrease of 30 per cent on the prior year. It generated operating income of \$A1.4 billion which was a decrease of 2 per cent on the prior year. FICC experienced difficult trading conditions in many of its markets during the first half of the year. It experienced an improvement in trading conditions in the second half. The group continued to invest in its growing platform.

Metals and Energy Capital made an outstanding contribution to the overall result, well up on the prior year. The division capitalised on rallying metals prices which positively impacted both trading revenue and equity realisations of project finance investments.

The result from **Agricultural Commodities** was well up on the prior year as agricultural commodities prices rose under the supply pressures resulting from severe global weather events and geopolitical unrest in the Middle East. This translated into increased client hedging activity and trading opportunities.

The contribution from **Energy Markets** was well down on the prior year. The impact of the severe Northern Hemisphere winter on energy prices, specifically on the US gas price, negatively affected the division's results.

US credit markets continued to rally during the period. However, lower levels of client activity impacted the otherwise strong result from **Credit Trading**. The division successfully extended its product coverage to include US commercial mortgage finance and commercial mortgage-backed securities.

The contribution from **Fixed Income and Currencies** was well down on the prior year as global foreign exchange client activity remained subdued and Australian debt markets continued to operate below 2008 issuance levels.

The result from **Futures** was up on the prior year. The division saw some improvement in trading volumes, partially offsetting the negative effect of the low interest rate environment in the US and the UK which resulted in lower income earned on client margin deposits.

Notable activity during the year included:

- Development of FICC's regional hub in Singapore. This included the granting to Macquarie Bank Limited of a bank branch licence, complemented by the extension of the Korean bank branch licence to include over-the-counter derivatives
- Establishment of an Asian Markets business based in Singapore, offering foreign exchange and corporate and sovereign debt trading to pension funds, hedge funds and banks globally
- Expansion of global physical oil trading capabilities with the addition of a Calgary-based crude oil marketing team and a Latin American oil liquids origination and marketing team based in Houston
- Futures membership obtained on the ICE US futures exchange, further strengthening its client offering in the US allowing direct interface for futures clearing.

Outlook

FICC will continue to focus on expanding its presence in Asia and the Middle East, selectively growing in physical commodities markets and steadily growing its more mature market offerings. Subject to market conditions, the group expects its result for the year ending 31 March 2012 to be up on the prior year. It will continue to invest in growth.

About Fixed Income, Currencies and Commodities

Agricultural Commodities Division

Provides risk management, structured financing and physical commodity solutions across agricultural commodities globally and selected dry freight routes.

Credit Trading Division

Facilitates client transactions with institutional investors and makes markets in secondary trading of, and investing in, corporate debt securities, credit default swaps, syndicated bank loans, collateralised debt obligations, commercial mortgage finance, asset-backed/mortgage-based securities and derivatives of these products.

Energy Markets Division

Provides risk management solutions to energy producers, consumers and investors across a broad range of products and acts as a trading intermediary in gas and power in the US and Europe.

Fixed Income and Currencies Division

(merger of Debt Markets and Foreign Exchange Divisions)

Provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally. In fixed income, the division arranges and places primary debt and provides secondary market liquidity across a range of instruments.

Futures Division

Provides a full range of broking and clearing services on all major futures exchanges. The division is a leading provider of these services in the Australian market and is pursuing opportunities in offshore markets.

Metals and Energy Capital Division

Provides equity and debt finance globally to the metals and energy sector as well as providing trading and hedging services to the base and precious metals sectors.

Central Division

Fosters and develops various non-division specific, early-stage or cross-divisional initiatives including Asian Markets, Environmental Financial Products, Structured Commodity Finance, new jurisdiction and branch initiatives and joint ventures and alliances.

Operating groups and divisions

Corporate and Asset Finance Group

Corporate and Asset Finance Group (CAF) contributed \$A501 million to Macquarie's total profit from operating groups for the year to 31 March 2011, an increase of 96 per cent on the prior year. CAF generated operating income of \$A786 million, an increase of 69 per cent on the prior year. At 31 March 2011, the group managed a lease and loan portfolio of \$A17.3 billion, an increase of 22 per cent from 31 March 2010. The growth in the portfolio was primarily due to the acquisition of new portfolios and continued organic growth across most businesses. CAF now has 888 staff servicing clients in 39 countries in the corporate, government and retail sectors.

CAF made two significant acquisitions during the year:

- On 14 April 2010, it agreed to acquire an aircraft operating lease portfolio from International Lease Finance Corporation (ILFC) for \$US1.6 billion. The portfolio comprised 44 modern aircraft on lease to 35 airlines in 26 countries, bringing Macquarie's aircraft portfolio to more than 170. The acquisition builds on Macquarie's existing aircraft leasing business and substantial experience in asset leasing and diversifies the client base of its aircraft fleet
- On 30 April 2010, CAF acquired the GMAC auto finance portfolio worth approximately \$A1 billion. This consolidated CAF's position as one of the largest providers of car finance in Australia, financing or managing more than 240,000 contracts. Macquarie has more than 13 years' experience developing financial solutions for the motor vehicle leasing sector. The acquisition enhances this expertise and extends it to a broader market. The GMAC acquisition, along with the \$A1 billion Ford Credit Australia portfolio acquired in October 2009, expanded CAF's presence in the consumer finance sector in Australia. These portfolios continued to perform solidly during the year.

CAF continued its corporate lending activities in Australia, the US and Europe, using its specialist expertise to offer bridging and term lending facilities to large corporate clients. It extended its IT&T leasing capacity into Malaysia, Hong Kong, Singapore and India. Within the Meters business, there was continued growth of CAF's smart metering portfolio in the UK.

The group continued to access global securitisation markets and facilitated a significant amount of securitisation during the year. CAF issued \$A1.2 billion of motor vehicle leases and loan securitisations, including two issuances in the US. IT&T completed its first capital markets securitisation of equipment lease receivables in the US. A total of \$US0.3 billion of securities were issued, further diversifying funding sources for the group at attractive pricing levels.

Outlook

Subject to market conditions, CAF currently expects its result for the year ending 31 March 2012 to be up on the prior year. It anticipates growth in its lease and loan portfolio. The group will continue to seek opportunities for growth organically and through acquisition.

About Corporate and Asset Finance Group

Macquarie Aviation Finance

Provides operating leases and other financial products across multiple aviation asset types. Post-balance date, effective 1 April 2011, Macquarie AirFinance, formerly part of Macquarie Capital, was consolidated within CAF to capitalise on synergies between the businesses.

Macquarie Equipment Leasing Fund

A Macquarie-managed equipment leasing program that became effective in the US in June 2009. It offers eligible US retail investors exposure to a diversified portfolio of equipment and equipment leases.

Macquarie Equipment Finance

Provides specialist IT leasing, equipment finance and services solutions for a wide range of technology-based equipment. It offers a complete technology lifecycle solution and provides these services to government entities, educational institutions and corporations, in addition to providing vendor finance to equipment manufacturers, resellers and service providers.

Macquarie Leasing

A leading provider of finance leases to small to medium enterprises, corporate, government and retail clients in Australia. Its products include finance leases, novated lease agreements and commercial hire purchases for motor vehicles and other income producing plant and equipment.

Macquarie Lending

Provides bridging, term lending and asset-backed finance to mid to large corporate clients and also invests in select debt assets trading in secondary debt markets. The Lending team has offices in Sydney, London, Chicago and New York.

Macquarie Manufacturing

A leasing and trading business of manufacturing, testing and assembly equipment, including integrated circuit equipment. It offers lease finance, trading and asset management services to clients in Europe, Asia and the US.

Macquarie Meters

Owes an extensive gas and electricity metering portfolio for major UK energy providers. The portfolio comprises traditional electronic meters and newer 'Smart' electronic meters.

Macquarie Rail

Offers a wide variety of operating lease structures, portfolio sale and leaseback and portfolio acquisition services for freight railcars and related services, supporting the rail equipment needs of shippers and railroads across North America.

Operating groups and divisions

Banking and Financial Services Group

Banking and Financial Services Group (BFS) contributed \$A275 million to Macquarie's total profit from operating groups for the full year to 31 March 2011, a 5 per cent increase on the prior year. BFS generated operating income of \$A1.5 billion, an increase of 19 per cent on the prior year. The result was up on the prior year despite continuing volatility in the advised and intermediary businesses and challenging conditions for non-cash products.

BFS continued to produce tailored product solutions to support its international businesses. It launched Macquarie EquityPlus in Canada, an investment product tailored for the Canadian retail market. It established an agricultural investment strategy for clients of Macquarie's Indian joint venture, Religare Macquarie Private Wealth. The group also signed a joint venture agreement with Manulife Indonesia to enhance Manulife's tailored insurance marketing processes.

Macquarie Private Wealth Canada increased its adviser numbers by 10 per cent during the year, reaching almost 160 at 31 March 2011. Canadian client assets also grew 18 per cent during the period from \$C8.3 billion to \$C9.8 billion. Macquarie was named No. 1 National Independent Canadian advisory firm and ranked third of all investment advisory firms (Investment Executive Brokerage Report Card 2011).

BFS' global client numbers reached 1.04 million at 31 March 2011, an increase of 40,000, due to organic growth in Australia and Canada.

In November, BFS announced that due to execution challenges and difficult business conditions it did not see a long-term future for its UK wrap platform business. The business will be wound up by June 2011. This decision does not impact Macquarie's other UK retail businesses.

In Australia, Macquarie Private Wealth (MPW) again held the number one position for full-service retail stockbroking based on market share and trading volumes (IRESS, based on consideration traded).

BFS continued to grow its cash business with the transition in August of the \$A9.6 billion Cash Management Trust to the more competitive on-balance sheet Cash Management Account. This saw retail on-balance sheet cash deposits increase from \$A15.5 billion at 31 March 2010 to \$A26.6 billion at 31 March 2011.

Funds under administration in Macquarie Wrap remained flat at \$A22.7 billion but Macquarie Wrap maintained the second highest inflows in the market for the calendar year (Morningstar). In August, Macquarie Mortgages relaunched its loan origination business in Australia.

Macquarie Life inforce risk insurance premiums increased 59 per cent on the prior year. Macquarie Life was ranked third in the NMG Financial Services Consulting satisfaction survey of the top 250 risk advisers in the market and was named the market leader for technology.

Macquarie Life also signed an agreement with Teachers Health Fund for the exclusive distribution and marketing of life insurance products to its 200,000 members.

In November, MPW sold down its 51 per cent holding in OzForex, CanadaForex, UKForex and NZForex to 19.9 per cent. The holding was sold to US-based investors, Accel Partners and The Carlyle Group, to assist the OzForex group of companies in its next stage of growth.

Macquarie Professional Series was named 2010 Standard & Poor's Product Distributor of the Year for the second consecutive year. S&P also named Macquarie Professional Series Manager, Independent Franchise Partners (IFP), as the top International Equities – Developed Markets fund. This is the fourth consecutive year the Macquarie Professional Series has won this award.

Outlook

Subject to market conditions, BFS expects its result for the year ending 31 March 2012 to be broadly in line with the prior year. BFS will continue to explore appropriate opportunities to provide differentiated wealth management solutions.

About Banking and Financial Services Group

BFS is the primary relationship manager for Macquarie's retail client base. The group brings together Macquarie's retail banking and financial services businesses, providing a diverse range of wealth management products and services to intermediaries, professional service industries and clients.

Macquarie Adviser Services

Manages relationships with external financial intermediaries and provides sales services and product management of in-house and external products.

Macquarie Direct

Provides a range of consumer and financial products for 164,000 non-advised clients in Australia.

Macquarie Global Investments

Provides investment products for retail and wholesale investors globally, including the Macquarie Professional Series, Macquarie Private Portfolio Management and the Macquarie Pastoral Fund.

Macquarie Private Wealth

Offers full-service broking, strategic financial planning and private banking services in Australasia. It has a joint venture agreement with Indian financial services company, Religare.

Macquarie Relationship Banking

Provides innovative banking services to successful small to medium sized businesses, professionals and high net-worth individuals.

BFS North America

Responsible for expanding Macquarie Private Wealth Canada into the North American market.

Operating groups and divisions

Real Estate Banking Division

Real Estate Banking Division's (REB) result for the year to 31 March 2011 was a net loss of \$A42 million, an improvement on the loss of \$A148 million reported in the prior year. It generated an operating loss of \$A8 million, an improvement on the operating loss of \$A114 million in the prior year. The negative result was largely driven by the recognition of asset impairment losses.

Central Functions

The **Corporate Affairs Group (CAG)** provides essential and professional services across all areas of Macquarie. There are 10 divisions in CAG which work together to provide seamless multi-disciplinary support infrastructure tailored to business requirements, while maintaining appropriate levels of risk management, compliance and corporate governance.

The **Finance Division** supports Macquarie's operating groups by providing financial management and control, management reporting and forecasting, regulatory reporting and business advisory services. The division is structured along business lines with dedicated teams co-located with, and providing support to, each operating group. In addition, there are central functions such as Group Finance and Global Financial Services (GFS) that provide services across the whole of Macquarie. GFS provides an efficient and scalable operating model for the service delivery of the division from Sydney and New Delhi.

The **Group Financial Management Division** is responsible for the management of Macquarie's capital position and more generally providing strategic advice and expertise to management in relation to the balance sheet.

Market Operations (formerly Settlements Division) is structured to provide independent specialist verification, confirmation and settlement facilities for a variety of products and currencies for many of Macquarie's businesses globally. The division provides a key segregated control function for wholesale businesses built on strong operational risk management and a control culture that is consistent and resilient.

Macquarie aspires to be recognised as the leading employer of the best people in the market. The **Human Resources Division** supports business strategy by seeking to attract, recruit, reward and retain the best employees. To achieve this, the division works closely with business groups providing a range of global consulting and operational expertise aligned with business strategy.

The **Business Improvement and Strategy Division** offers strategic advice and expertise to Macquarie and related entities. The division helps businesses to deliver programs for business unit growth and operational effectiveness. It is also responsible for facilitating Macquarie's annual corporate strategy process.

The **Taxation Division** provides taxation support to all areas of Macquarie, managing relationships with revenue authorities worldwide and compliance with taxation legislation.

Group Treasury is responsible for the funding, liquidity and interest rate risk management of Macquarie's balance sheet. In addition, Group Treasury manages Macquarie's liquid asset portfolio and is responsible for managing banking and rating agency relationships.

The **Corporate Communications and Investor Relations Division** actively engages with shareholders, debt investors, investment analysts, governments, media, staff and the wider community to maximise their understanding of Macquarie and enable Macquarie to understand the expectations of our key stakeholders. It also includes the activities of the Macquarie Group Foundation, Macquarie Sports and the Sustainability and Environment Office.

The **Business Services Division** comprises Corporate Real Estate, Corporate Risk, Corporate Services, Event Marketing and Sourcing and Commercial. The teams have the responsibility for the strategic direction, implementation and ongoing management of Macquarie's workplaces, business resilience, global security and corporate services. The Event Marketing team delivers professional and quality events which look to protect and enhance the Macquarie brand, while the Sourcing and Commercial team leverages the Macquarie brand, global presence and expenditure on goods and services to unlock value from suppliers and vendors.

The **Company Secretarial Division** provides governance and company secretarial services to Macquarie, including the main Boards of Macquarie, the Board Committees, Macquarie's subsidiary companies and Macquarie's Executive Committee. The division is also responsible for the coordination and administration of Macquarie's share registry arrangements, employee equity plans and Macquarie's global professional risk and general liability insurances.

Central Functions continued

Risk Management Group (RMG) is an independent, central unit responsible for ensuring all risks are appropriately assessed and managed across Macquarie. Its functions include Credit, Prudential, Capital and Markets, Market Risk, Operational Risk, Compliance, Quantitative Applications, Internal Audit and Data Policy. The Head of RMG has oversight of Internal Audit jointly with the Board Audit Committee (BAC).

Credit minimises the risk of loss arising from failure by counterparties to repay loans or honour contracts. It ensures that the identification and assessment of equity exposure risks is complete.

Prudential, Capital and Markets (PCM) is responsible for ensuring that Macquarie discharges its obligations to APRA, including compliance with prudential standards, and maintaining a constructive relationship with the regulator. PCM also ensures that aggregate risks across all risk types do not exceed Macquarie's economic capability to bear risk and provides prudential oversight over liquidity risk management.

Market Risk constrains the risk of losses on the trading portfolio that may arise from adverse movements in market prices and volatility. It develops and monitors the framework that constrains these risks.

Operational Risk assesses operational risk from a Macquarie-wide perspective and ensures that an appropriate framework exists to identify, assess and manage operational risk. It is also responsible for Macquarie's operational risk capital measurement methodology.

Compliance assesses regulatory, legal and reputation risks from a Macquarie-wide perspective. It creates Macquarie-wide policies and procedures to manage these risks and monitors and oversees the management of compliance risks by each of Macquarie's businesses. Legal risk is overseen by **Group Legal** (refer to Group Legal overview within this report).

The **Quantitative Applications Division** (QAD) is responsible for reviewing and approving all derivatives pricing models used within Macquarie's trading systems. In addition, QAD works with businesses to provide solutions to complex financial problems and independently reviews other RMG and business quantitative models including those used for capital, risk measurement and products.

Internal Audit provides independent assurance to senior management and the Board Audit Committee on the adequacy of design and effectiveness of Macquarie's financial and risk management framework.

Data Policy ensures that uniform data standards are adopted across Macquarie so that accurate and reliable information is used for credit monitoring and for regulatory and statistical reporting processes.

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

Independence: RMG is responsible for assessing and monitoring risks across Macquarie and is independent of the operating areas of Macquarie. The Head of RMG, as Macquarie's Chief Risk Officer, reports directly to the Managing Director and Chief Executive Officer 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, which 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 allow RMG to monitor credit and market risks daily. RMG staff liaise closely with operating and support divisions.

RMG provides specific guidance to the Board Remuneration Committee in relation to the risk-adjustment of remuneration. During the year, Macquarie Compliance was created, consisting of all business-aligned compliance staff. Previously, RMG acted in a risk oversight role of the business compliance function. The creation of Macquarie Compliance means that compliance teams now report directly to RMG.

In regulatory developments, the Basel Committee on Banking Supervision released final text of the Basel III framework in December 2010. RMG is responsible for coordinating Macquarie's evaluation and response to both current and forthcoming developments and provides updates to the Board on a monthly basis.

Legal risk at Macquarie is overseen by **Group Legal**. Group Legal was established during the year to provide a coordinated and integrated legal service for Macquarie. This brings together Macquarie lawyers across a wide range of expertise and disciplines and reinforces the independent function of the legal role.

Group Legal provides the full range of legal services to Macquarie, from strategic legal advice on significant corporate transactions through to risk assessment frameworks for legal, regulatory and reputational issues with the following core objectives:

- ensuring that all transactions are able to be enforced by Macquarie as expected
- enabling individual businesses at Macquarie to understand the legal and regulatory framework and to operate accordingly
- carefully assessing dispute resolution proceedings and threatened actions and as far reasonably practical, minimising or mitigating those risks
- advising on new products and business structures and combinations
- protecting and appropriately enforcing Macquarie's legal, commercial and reputational interests and rights.

Group Legal is headed up by an experienced team of General Counsel, business unit General Counsel and regional lead lawyers with an average tenure at Macquarie of over 10 years, and with an additional average of 11 years of prior relevant experience. As at 31 March 2011, Group Legal had 230 lawyers located both across regions and within business units, broadly in proportion to total headcount.

The Head of Group Legal is the General Counsel who is a member of Macquarie's Operations Review Committee and reports directly to the Managing Director and Chief Executive Officer. The General Counsel has access to the Board and board committees. Each significant Macquarie business unit has a General Counsel who reports directly to the Group Legal General Counsel and to the relevant business unit head.

Information Technology Group (ITG) is responsible for the management of Macquarie's technology infrastructure, the support and development of existing business systems and the delivery and deployment of new systems, technologies and services. It comprises business-aligned teams which provide dedicated and specialist services to businesses as well as central teams which provide shared services, such as infrastructure, to multiple businesses. The business-aligned teams are often co-located with the business.

ITG's business-aligned teams implemented a number of significant applications during the year including:

- Syn Settlements which was implemented to manage global books and records and Asian settlements for Macquarie Securities' Cash Equities business, replacing legacy platforms
- Client View program which BFS delivered in phases through the year enabling a consolidated real time view of clients' holdings for their Macquarie Private Wealth advisers across Australia to further improve client service
- the completion of the Calypso global cash management system program for Global Treasury and Settlements.

During the year, ITG supported the integration of businesses, including INNOVEST, an Austrian securities asset management firm acquired by MFG, as well as the completion of the Delaware Investments and Blackmont Capital integrations.

ITG supported Macquarie office relocations in London and Singapore, a new office in Gurgaon (India) and the implementation of new data centres in Hong Kong, London, New York and Singapore.

ITG continues to expand its service centre in Manila (Philippines) and is also building its capability within the service centre in Gurgaon.

Macquarie Group Foundation

In the 12 months to 31 March 2011, the **Macquarie Group Foundation** (the Foundation) celebrated its 25th year of supporting communities around the world. Since inception, the Foundation has provided more than \$A145 million to thousands of community organisations in the locations in which Macquarie operates.

The Foundation has grown alongside Macquarie Group, supporting the increasing involvement of Macquarie staff in the community, the ongoing development of international programs and the pioneering focus on sustainability in the not-for-profit sector.

Much of the Foundation's growth and activity was due to the leadership of David Clarke who resigned in March as founding Chairman of Macquarie Group Foundation and its predecessor, the Hill Samuel Charitable Fund. David's belief that a company has the obligation to work for the betterment of the society in which it operates has guided the Foundation's work over the last 26 years, enabling Macquarie and staff to contribute to the community in a variety of ways. David inspired an enduring culture of community engagement among Macquarie staff and was a key figure in Australian philanthropy. The Foundation Board and staff mourn the passing of David Clarke in April and acknowledge his extraordinary contribution to the Foundation and the not-for-profit sector.

Given the 12 months to 31 March 2011 marked the Foundation's 25th anniversary, we note below some of the significant milestones of Macquarie's contribution to the community.

Milestones

1978	The Macquarie Bank Charitable Foundation's predecessor, the Hill Samuel Charitable Fund is established
1982	The Hill Samuel Graduate Management Scholarship was established.
1985	The Macquarie Bank Charitable Foundation makes its first donation to a community organisation.
1988	Grants exceed \$A100,000 in a 12-month period for the first time.
1990	Cumulative grants since inception exceed \$A500,000.
1993	Cumulative grants since inception exceed \$A1 million.
1995	Macquarie staff are the highest contributors to the 'Work-A-Day 4 Kids' financial markets charity in Australia.
1996	Cumulative grants exceed \$A2 million since inception.
2000	Julie White was initially appointed on a part-time basis as the first dedicated manager of Macquarie's growing philanthropic activities. Julie is now responsible for a global team of 10 staff and a multi-million dollar budget managing hundreds of important relationships with community organisations, governments and other stakeholders.
2001	Designed to foster long-term strategic alliances with major community organisations, the Foundation committed \$A1 million over five years to Asthma Australia to fund research programs and \$A500,000 over three years to the National Gallery of Australia to create Australia's first national sculpture prize. Staff matching exceeds \$A150,000 over 12 months.
2005	The Foundation's Australian Board Register is established, comprising senior Macquarie executives willing to offer their time, skills and expertise to the not-for-profit sector. Staff matching exceeds \$A1 million over 12 months.
2007	The Foundation announces a new category of funding to build capacity for well-planned community organisations to help them staff up, as well as for established enterprises to help with their next phase of growth.
2008	Staff matching exceeds \$A5 million over 12 months.
2009	The Macquarie Group Foundation Professor, the Centre for Social Impact, University of NSW, established as part of Macquarie's commitment to building sustainability in the community sector.
2011	The Foundation and Macquarie staff contribute \$A27.3 million to more than 1,300 community organisations around the world. A new record of staff matching is reached with matching exceeding \$A10 million over 12 months.

Foundation year on year trend

Total spend ■

Staff matching ■

\$Am

\$30

\$25

\$20

\$15

\$10

\$5

0



Macquarie Group Foundation

continued

Capacity building

In the spirit of the 25th anniversary year, 2010 also saw the establishment of Macquarie's Australian Social Innovation Award, an initiative designed to recognise, promote and reward innovation that meets pressing social needs, alleviates disadvantage and encourages social inclusion.

The inaugural winner of the Award was The School for Social Entrepreneurs (SSE). This is an Australian not-for-profit organisation dedicated to the development and increased capacity of social entrepreneurs. The award of \$A100,000 goes to SSE for capacity building as well as providing grants to six of its students, each of whom will receive \$A10,000 to develop their own social enterprises.

The bi-annual Social Innovation Award is an example of Macquarie's commitment to capacity-building in the not-for-profit sector and builds upon the Foundation's 17 grants helping organisations with activities such as strategic planning, buying essential infrastructure or engaging key people to oversee further growth.

Supporting staff

In 2010 the Foundation continued to support Macquarie staff as volunteers, pro bono advisers and fundraisers. Due to the Foundation's staff donation and fundraising support policy, Macquarie Group was named by men's health charity Movember as its highest global corporate fundraiser, having raised in excess of \$A850,000 in 2010. Including this figure, Macquarie and Macquarie staff have contributed \$A2.14 million to the charity since 2005. A Macquarie Executive Director is also on the Movember Board.

Other organisations for which staff collaborated to raise money over the 12 months included Juvenile Diabetes Research Foundation (in Australia, Canada, USA and the UK) and Oxfam (in Australia, Hong Kong and the UK).

Macquarie staff also gave generously to aid organisations working with those affected by the Queensland floods and Christchurch and Japanese earthquakes, with all of these disasters occurring in locations where Macquarie staff live and work.

As part of its annual Staff in the Community Awards, the Foundation also recognised a range of outstanding staff contributions in Macquarie's Bloomfield Hills (Detroit), Dublin, Gold Coast, Hong Kong, New York, Manila, Melbourne, Singapore, Sydney and Toronto offices. In 2010, 13 individuals and four teams received recognition for their work with community organisations focused on health, welfare and education.

Macquarie Sports

In 2010, Macquarie Sports increased the range of sports it offers to children across Australia with the introduction of soccer attracting participants to clinics in Sydney and Brisbane. Clinics offered in Australian Rules, basketball, cricket, netball, rugby league and rugby union around the country touched more than 8,000 children from a range of different communities. A particular highlight was the inaugural 'Tiwi Ashes', led by Matthew Hayden on Melville Island, which coached and mentored more than 500 local indigenous children.

Foundation Board

There were a number of changes to the Foundation Board over the 12 months. To reflect the Foundation's increasing global presence, two New York-based Executive Directors, Paul Daitz from Macquarie Capital and Michael McLaughlin from Fixed Income, Currencies and Commodities, joined the Board. Tanya Branwhite, an Executive Director from Macquarie Securities in Sydney, also added to the Board's diversity of skills and knowledge.

Foundation grants and matching of staff fundraising/donations

Committed pledges and donations ■

Staff matching ■

SAm

20

15

10

5

0

FY01

FY02

FY03

FY04

FY05

FY06

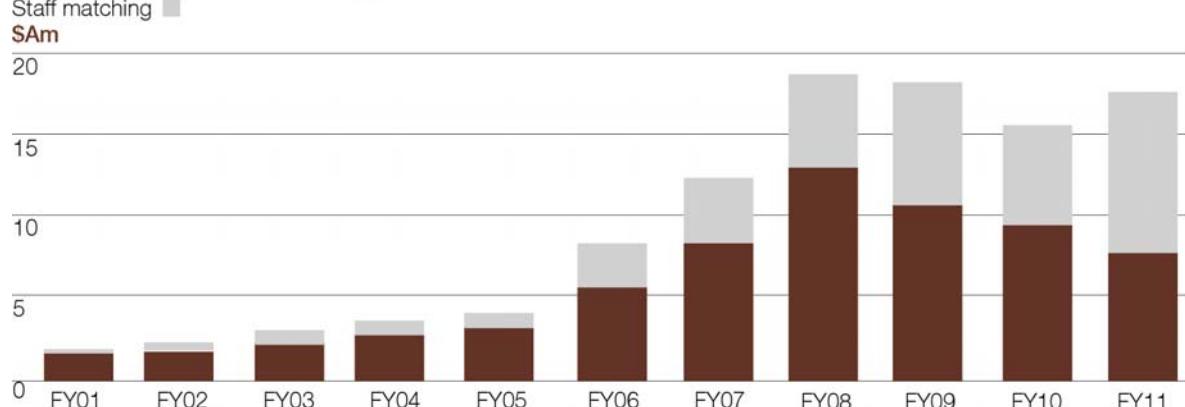
FY07

FY08

FY09

FY10

FY11



Corporate Governance Statement

Macquarie's approach to Corporate Governance

Macquarie's approach to corporate governance aims to achieve superior and sustainable financial performance and long-term prosperity, while meeting stakeholders' expectations of sound corporate governance.

Macquarie's corporate governance framework has been developed to support Macquarie's client focused business operations, while providing clear guidance on how authority is exercised within Macquarie, including Board oversight of key controls. The Macquarie Board, with the assistance of the Board Committees, determines the most appropriate corporate governance practices.

Members of the Board and staff are responsible for upholding the goals and values to which Macquarie aspires: Integrity, Client commitment, Strive for profitability, Fulfilment for our people, Teamwork and Highest standards.

Macquarie Group Limited (Macquarie) is listed on the Australian Securities Exchange (ASX) and is regulated by the Australian prudential regulator, APRA, as a non-operating holding company of a licensed Australian Bank, Macquarie Bank Limited (Macquarie Bank). Macquarie is also supervised by the Australian corporate regulator, ASIC. A number of Macquarie's key operating subsidiaries are supervised by regulators in the overseas jurisdictions in which they operate.

Macquarie monitors regulatory and corporate governance developments that impact on Macquarie's businesses, adopting corporate governance practices it considers are in the best interests of Macquarie and its shareholders, consistent with Macquarie's responsibilities to other stakeholders including clients, investors and staff. Macquarie considers that until 17 March 2011, its governance practices were consistent with all but one of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations), as set out below under the description of the role of the Chairman. Macquarie considers that since 17 March 2011, its governance practices have been consistent with all the ASX Recommendations. A summary of the ASX Recommendations and reference to the applicable Macquarie governance practice is available on Macquarie's website at macquarie.com.au

On 17 March 2011, Chairman David Clarke resigned as a member of the Macquarie and Macquarie Bank Boards due to illness, and the Lead Independent Director, Kevin McCann, was appointed as Chairman of both Boards. Other notable governance developments during the year included the transfer of oversight of Compliance from the Board Audit and Compliance Committee, (since renamed the Board Audit Committee (BAC)) to the Board Corporate Governance Committee (BCGC) in June 2010 and a review of Macquarie's governance framework in the context of amendments to the ASX Listing Rules and ASX Recommendations. As a result of the review, a summary of Macquarie's diversity policy and objectives has been included in the 2011 Macquarie Annual Report (Annual Report) and a copy of Macquarie's *Trading Policy* was lodged with the ASX in December 2010.

Corporate Governance framework



Corporate Governance Statement

continued

Board oversight and management

The current composition of the Macquarie Board, as at the date of this report, is set out in the table below. Details of each Voting Director's experience is summarised in the Annual Report in Schedule 1 of the Directors' Report (Directors' Report). Macquarie's Constitution includes requirements concerning the setting of board size, meetings, election of directors and powers and duties of directors. As at 31 March 2011, the Board had eight Voting Directors. Since year end Macquarie has announced the appointment of Ms Diane Grady as a new Independent Director taking the Board to nine members effective from 19 May 2011. The maximum Board size is currently nine.

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

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 Chief Executive Officer, has been granted general authority for those matters not reserved for the Board or Board Committees. Macquarie's Executive and Operations Review Committees operate as management committees pursuant to the Managing Director's delegated authority.

Details of the Board's relationship with management and its role and responsibilities are contained within the *Board's Charter* which is available on Macquarie's website.

Macquarie has adopted a number of practices to regulate the division of responsibilities between the Board and management, including:

- having a majority of independent directors on the Board
- the separation of the roles of chairman and chief executive officer
- having the Non-Executive Directors meet in the absence of management at least annually
- that the number of Non-Executive Directors present at a meeting must be greater than the number of Executive Voting Directors

- that the Board Risk, Remuneration, Audit and Corporate Governance Committees be chaired by Independent Directors
- providing the Board and Board Committees with the ability to seek advice from independent experts to carry out their duties.

Chairman

David Clarke was the Non-Executive Chairman of Macquarie until 17 March 2011. Given Mr Clarke's role as Executive Chairman of Macquarie Bank from its formation until 31 March 2007, he was not considered to be an Independent Director.

APRA's Governance Standard, *APS 510 Corporate Governance*, requires that regulated entities have an independent chairman. Notwithstanding this requirement, APRA confirmed that it would allow Mr Clarke to continue as Chairman. The ASX Recommendations also include a recommendation that the Chairman be independent. The Board believed that Mr Clarke was the most appropriate Director to be Macquarie's Chairman because of his relevant financial and industry experience, record of leadership and deep understanding of Macquarie's operations which are diverse and highly specialised. The Board appointed a Lead Independent Director to act as a conduit to the Chairman for issues that the Independent Directors had as a group.

Kevin McCann was Macquarie's Lead Independent Director until he was appointed Chairman of Macquarie, effective 17 March 2011.

Having been appointed a Director of Macquarie in August 2007 and Macquarie Bank in December 1996, Mr McCann has a strong knowledge of Macquarie's complex operations and activities, both in terms of the products and services Macquarie offers and the geographical areas in which it operates. Mr McCann also has a solid understanding of the regulatory framework under which Macquarie operates and was Acting Chairman during Mr Clarke's leave of absence between 27 November 2008 and 30 August 2009.

Director	Board membership	Date of appointment
Kevin McCann, AM	Independent Chairman	March 2011 (Chairman) ¹ August 2007 (Director)
Nicholas Moore	Managing Director and Chief Executive Officer	May 2008 February 2008 (Director)
Michael Hawker, AM	Independent	March 2010
Peter Kirby	Independent	August 2007
Catherine Livingstone, AO	Independent	August 2007
John Niland, AC	Independent	August 2007
Helen Nugent, AO	Independent	August 2007
Peter Warne	Independent	August 2007

¹ Effective 17 March 2011, David Clarke resigned as Chairman and a Voting Director of Macquarie due to ill health and Kevin McCann, Macquarie's Lead Independent Director, was appointed Chairman.

Lead Independent Director

Whilst Mr Clarke was Chairman, Mr McCann acted as the Lead Independent Director. In this capacity Mr McCann chaired meetings of the Independent Directors as a group and provided feedback to the Chairman on any issues raised by them. Given Mr McCann's appointment as Independent Chairman, Macquarie no longer requires a Lead Independent Director.

Independent Directors

Macquarie recognises that independent directors are important in assuring shareholders that the Board is able to act in the best interests of Macquarie and independently of management. Seven of the Macquarie Board's eight members are independent directors.

The independence of directors is determined annually by the BCGC. Based on Macquarie's criteria for assessing director independence, each independent director is asked to confirm whether they have any interests or relationships that may impact either on their ability to act in the best interests of Macquarie or independently of management. Disclosed interests are reviewed by the BCGC to determine whether their interest would materially interfere with the exercise of a non-executive director's independent judgement.

Materiality is assessed having regard to each individual director's circumstances, the circumstances of the supplier, customer or advisor and any other significant relationships with Macquarie or its subsidiaries.

At its meeting in February 2011, the BCGC confirmed that Helen Nugent, Catherine Livingstone, Kevin McCann, Peter Kirby, Peter Warne, John Niland and Michael Hawker continued to be Independent Directors.

Directors are also 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 have unlimited access to senior management of Macquarie.

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

Board performance

The Board reviews its performance and the performance of each director on an annual basis with a focus on directors standing for re-election. The process for conducting the review is agreed by the Board and typically includes individual interviews by the Chairman 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, control risks 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.

An Independent Director is nominated to provide 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. Regular Board education sessions are held during the year in response to business awareness needs, as identified by the Non-Executive Directors.

In 2011, the Board's review is being undertaken internally following the process described above.

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, led by the Chairmen of the Board Committees. During the year, three 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.

Corporate Governance Statement

continued

Performance of key executives

Formal processes, summarised below, have been adopted by Macquarie to review the performance of Macquarie's most senior executives. As part of the review, the Non-Executive Directors meet as a group to approve the remuneration of the Managing Director and Executive Committee members.

Every year the Managing Director presents to the Non-Executive Directors as part of the formal review of the Managing Director. The Non-Executive Directors review performance by considering a range of indicators including financial performance measures, strategic initiatives, risk management, governance and compliance, staff and human resources indicators, reputation management and monitoring, and community and social responsibility matters. A similar process is also followed to review the performance of the Managing Director of Macquarie Bank.

The Managing Director evaluates, at least annually, the performance of the Deputy Managing Director and the Operating Group Heads, including the Head of Risk Management and the Chief Financial Officer. Performance criteria vary according to the individual's role. Factors relevant to assessing performance include (as appropriate) relative contributions to profits, capital usage, how business is done, including risk management, governance and compliance, people leadership and upholding Macquarie's *Goals and Values*. The Managing Director reports to the Board Remuneration Committee (BRC) on the performance of these key executives.

The Board and Management seek to ensure that remuneration for the Head of the Risk Management Group is determined in a way that preserves the independence of the 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 for Key Executives is found in the Remuneration Report in the Directors' Report.

Board Committees

The Board has delegated specific authorities to its five standing Board Committees to assist it with the execution of its responsibilities. All Board members are sent Board Committee meeting agendas and may attend 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 current membership of each Board Committee is set out below. Details of each Director's experience is summarised in Schedule 1 of the Directors' Report. Members' attendance at Board and Board Committee meetings is set out at the beginning of the Directors' Report.

Current Standing Board Committee Membership ¹	Audit	Corporate Governance	Nominating	Remuneration	Risk
Independent Directors					
Kevin McCann, AM	Member	Chairman	Chairman		Member
Michael Hawker, AM					Member
Peter Kirby	Member	Member			Member
Catherine Livingstone, AO	Chairman	Member	Member		Member
John Niland, AC		Member		Member	Member
Helen Nugent, AO			Member	Chairman	Member
Peter Warne	Member	Member		Member	Chairman
Executive Directors					
Nicholas Moore					Member
Richard Sheppard ²					Member

¹ On 17 March 2011 David Clarke resigned due to ill health. Until this time he was Chairman of the Nominating Committee and a member of the Remuneration and Risk Committees.

² In accordance with the Macquarie Risk Committee Charter, the Committee's membership includes the Managing Director and Chief Executive Officer of Macquarie Bank, Richard Sheppard. Mr Sheppard is not a Voting Director of Macquarie Group Limited.

Allocation of responsibilities between Board Committees

Five standing Board Committees assist the Board in its oversight role as follows:

Board Nominating Committee

The Board recognises the importance of undergoing a regular process of renewal via changes in membership. The Board Nominating Committee assists the Board in maintaining a diverse board that has an appropriate mix of skills and experience to be an effective decision-making body, contributing to the successful oversight and stewardship of Macquarie.

The Committee considers the desirable competencies for a new Board member as well as the depth and range of skills and the diversity of the Board. It engages external consultants to assist with the selection of new candidates to the extent it considers it necessary to carry out its duties and to ensure that a diverse range of candidates are considered.

Macquarie's *Policy on Board Renewal and Appointment of Directors* sets out the steps taken and fundamental factors relevant to the selection and appointment of new directors and is available on Macquarie's website.

New Independent Directors are appointed for the longer of 12 years or the end of their final three year term. In addition to providing an induction program for new Directors, regular board education sessions are held during the year in response to business awareness needs, as identified by the Non-Executive Directors.

In accordance with the Committee's Charter, the Chairman of the Board must be the Chairman of the Board Nominating Committee. Currently, all members of the Board Nominating Committee are Independent Directors, including the Chairman Kevin McCann.

Board Risk Committee

The primary responsibility of the Board Risk Committee is to ensure Macquarie has an appropriate risk management framework including the establishment of policies for the control of risk. The Board Risk Committee receives information on the risk profile of Macquarie, any breaches of the policy framework and external developments which may have some impact on the effectiveness of the risk management framework. It also approves significant changes to the risk management policies and framework. The Chairman of the Board Risk Committee, Peter Warne, is an Independent Director. He is also a member of the BAC, BCGC and BRC.

Board Audit Committee

The BAC is responsible for exercising oversight over compliance of the financial statements with legal requirements and other mandatory professional reporting requirements and advising the Board on these matters. All members of the BAC, including the Chairman, are independent. The BAC is chaired by Catherine Livingstone, a Chartered Accountant with significant and relevant finance and accounting experience.

Further information on the role of the BAC is provided under the heading Financial Reporting in this statement.

Board Remuneration Committee

The BRC makes recommendations to the Board that promote appropriate remuneration policies and practices for Macquarie. It also has responsibility to liaise with the Board Risk Committee, the BCGC and the BAC in relation to remuneration related disclosures in the financial statements and the Remuneration Report. All members of the BRC are independent, including the Committee Chairman, Helen Nugent.

Further information on the role of the BRC is provided in the Remuneration Report.

Board Corporate Governance Committee

The BCGC assists the Board in adopting the most appropriate corporate governance policies for Macquarie, meeting Macquarie's corporate governance requirements and fulfilling its responsibility for oversight of Macquarie's Compliance practices. All members and the Chairman of the BCGC, Kevin McCann, are Independent Directors.

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

Corporate Governance Statement

continued

Ethical and responsible decision making

Code of Conduct

Macquarie has adopted a Code of Conduct, which incorporates *Macquarie's Code of Ethics (What We Stand For)*. 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 help staff to understand their responsibility to uphold the following goals and values to which Macquarie aspires: Integrity, Client commitment, Strive for profitability, Fulfilment for our people, Teamwork and Highest standards. It also details standards and expectations around conflicts of interest, disclosure and corruption, to ensure that the highest standards are maintained and Macquarie's reputation 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 that all Macquarie business is conducted in accordance with sound ethical practices and the *Goals and Values* of the organisation. The Integrity Officer reports directly to the Chief Executive Officer and provides an annual report on the activities and developments of the Integrity Office to the BCGC.

Macquarie's *Corporate Citizenship statement* is available on Macquarie's website.

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

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

- Board members declaring their interests as required under the *Corporations Act 2001 (Cth)*, ASX Listing Rules and general law requirements
- Board members with a material personal interest in a matter not receiving the relevant Board paper and not being 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.

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.

The Macquarie Bank Board also has processes in place to ensure that decisions made by them are done so at arm's length. 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 the personal investment interests of staff against Macquarie's responsibility to ensure that the personal dealing and investment activities of its staff in any financial product are conducted appropriately. Key aspects of Macquarie's policies in relation to staff and Director trading 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 profits 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
- **unvested options, 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 which are subject to retention arrangements, or their unvested Macquarie options. Non-Executive Directors may also 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 employees are not permitted to take net short positions in Macquarie shares or any securities in Macquarie-managed funds.

Macquarie has lodged its *Trading Policy*, which sets out the restrictions that apply to dealing in Macquarie securities by Macquarie staff, including Key Management Personnel, with ASX.

A copy of Macquarie's *Trading Policy* is available on its website.

Each member of the Board is encouraged to consider positions in a Macquarie-related security as a long term investment and is not permitted to trade derivatives without the prior approval of the Chairman (or the Managing Director 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.

Sustainability, diversity and the community

Macquarie has a robust framework of policies, underpinned by its *Goals and Values* and *Code of Conduct*, relevant to environmental, occupational health and safety, diversity, social and governance responsibilities.

Macquarie's approach to sustainability is included in the Sustainability section of this Annual Report. A Global Reporting Initiative (GRI) index is also provided. In 2010 Macquarie met its commitment to become carbon neutral across its office energy use and business air travel.

Macquarie also invests continually in the development and training of its staff and is committed to workforce diversity. Our approach to diversity is detailed in the Annual Report in the section headed Diversity at Macquarie.

Macquarie engages in the wider community through the Macquarie Group Foundation (the Foundation). In the year to 31 March 2011, the Foundation and Macquarie staff contributed \$A27.3 million to more than 1,300 community organisations globally.

There are also a number of Foundation volunteer programs. Through volunteer activities, staff can directly help community organisations and also build sustainability in the not-for-profit sector by transferring their business skills, providing mentor support, serving as board members and giving pro bono advice. The Foundation works closely with its community partners to assess how volunteer support can be best utilised.

Details of Macquarie staff community initiatives and organisations supported by the Foundation are available on Macquarie's website.

Corporate Governance Statement

continued

Financial reporting

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

- the integrity of Macquarie's financial reporting and, as part of this role, 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, prior to making recommendations to the Board on the appointment and removal of the external auditor
- the operation of the Internal Audit Division. The BAC reviews the appointment and performance of the Head of the Internal Audit Division (IAD), as well as the remuneration arrangements in place, to maintain the objectivity of the Internal Audit function. It also monitors the scope and implementation of the IAD annual plan.

The BAC monitors Macquarie's APRA regulatory reporting control framework and other banking regulatory reporting as relevant.

Auditor independence

The BAC reports to the Board, prior to the approval of the interim and year-end financial report, on its monitoring of the independence of the external auditors in accordance with its obligations under the *Corporations Act 2001 (Cth)*, Macquarie's *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 audit engagement partner and review partner must be rotated every five years. Macquarie's lead audit engagement partner rotated at the conclusion of the 2008 financial reporting period.

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

Chief Executive Officer and Chief Financial Officer declaration

The Macquarie and Macquarie Bank Boards receive written confirmation from their Chief Executive Officer and Chief Financial Officer that:

- their statement given to the Board on the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- Macquarie's risk management and internal compliance and control system is operating effectively in all material respects.

Macquarie's senior management has 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 2011. The Boards have received the Chief Executive Officer and Chief Financial Officer declarations described above for this financial year.

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 which 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
- timely and expressed in a clear and objective manner
- lodged with the ASX as soon as practical.

An *External Communications Policy* summary 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, venue and time considered convenient to the greatest number of 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 also lodged with ASX after the meeting as soon as they are available.

This year Macquarie's AGM will be held in Sydney and the Macquarie Bank AGM will be held on the same day, after the Macquarie AGM. 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 the business of the meeting.

Shareholders, if unable to attend the meeting, are encouraged to vote on the motions proposed by appointing a proxy. The proxy form included with a notice of meeting will clearly 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. Holders of Macquarie Income Securities have the right to attend the Macquarie Bank AGM, at which they have limited voting rights, as set out in the terms of their issue, which is available on Macquarie's website.

A Shareholder Calendar is available on Macquarie's website.

Macquarie's website

Macquarie's website contains recent announcements, past and current reports to shareholders, including summaries of key financial data, and copies of recent notices of meeting. There is also a link allowing investors to register to receive significant Macquarie announcements electronically by email as soon as practicable after they have been lodged with the ASX.

The AGM webcast, year-end and half year-end results presentations and operational briefing presentations are also available on Macquarie's website.

Oversight of risk management

Risk management is sponsored by the Board and is a top priority for senior managers, starting with the Chief Executive Officer. Macquarie's approach to risk management is embedded across all business units. The Board, through the Board Risk Committee, oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie. All members of the Board and the Managing Director of Macquarie Bank are members of the Board Risk Committee to focus appropriate attention on the oversight of risk.

The Head of the Risk Management Group (RMG), as Macquarie's Chief Risk Officer, is a member of Macquarie's Executive Committee and reports directly to the Chief Executive Officer of Macquarie. The Head of RMG has a secondary reporting line to the Board Risk Committee which approves the replacement, appointment, reassignment or dismissal of the Head of RMG. He presents on risk matters at each Board/ Board Risk Committee meeting.

At the executive management level, the Macquarie and Macquarie Bank Executive Committees and Operations Review Committee focus on strategic and operational issues, material transactions 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 (e.g. Market Risk Committee, Asset and Liability Committee).

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

Corporate Governance Statement

continued

Remuneration

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

Non-Executive Directors are not granted equity, nor do they receive bonus payments. They do not receive termination payments on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. Details of Macquarie's approach and the amount of remuneration paid to Non-Executive Directors are contained in the Remuneration 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 also set out in the Remuneration Report.

Corporate Governance in Macquarie-managed funds

The Macquarie-managed funds' (Funds) governance standards provide an alignment of interests between the manager and investors in the Funds and adopt an appropriate governance framework to ensure protection of security holder interests.

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
 - Chinese Walls operate to separate Macquarie's corporate finance, advisory and equity capital markets businesses from its funds management businesses.

Macquarie's expertise in managing fund assets and sourcing new value-adding opportunities is a key attraction for investors in Macquarie-managed funds. While Macquarie exercises general oversight of its funds management subsidiaries as set out above, decision-making relating to transactions by Funds are made by the directors of the responsible entities of, and companies within, the Funds.

The diversity of our people is fundamental to Macquarie's success. Their broad range of experiences, skills and views are key strengths and critical to the wide range of services we deliver to clients and the communities in which we operate. All executives, managers and employees are responsible for promoting workforce diversity. To support this shared responsibility a dedicated Diversity Director has been appointed to work in conjunction with Macquarie's Equal Opportunity office in implementing a global diversity agenda across the organisation. Diversity committees, chaired by the heads of our operating and service groups, have been established and regional committees are in place in the Americas and Europe.

Diversity

continued

Global Diversity Policy

To support the organisation in achieving its Diversity objectives, a *Workforce Diversity Policy* has been developed which has been endorsed by Macquarie's Board and Executive Committee. Its aim is to publicly define Macquarie's workforce diversity commitment and the structures in place to ensure it is realised. The principles contained in our *Workforce Diversity Policy* are incorporated into the public *Our Commitment to Workforce Diversity* statement available on Macquarie's website.

Female representation metrics

For the year ending 31 March 2011, the proportion of women employed globally at Macquarie was as follows:

- Board of Directors: 25 per cent
- Executive Committee: 8.3 per cent
- Senior Executive: 12.5 per cent
- Macquarie Workforce: 37.3 per cent.

Note: Gender data is only recorded for permanent employees.

Diversity objectives

The *Workforce Diversity Policy* provides that each year the Board will set measurable objectives for achieving gender diversity. For the year ending 31 March 2012, Macquarie has set the gender diversity objectives listed below, in line with its key strategic imperatives and desired long-term outcomes.

Women@Macquarie

In late 2009 Macquarie launched *Women@Macquarie*, a global initiative aimed at supporting females in their development of successful, fulfilling, self-directed careers at Macquarie. During calendar year 2010, over 400 female staff globally participated in the training/coaching elements of the program while more than 500 male and female staff attended a series of networking events. In 2011, *Women@Macquarie* is broadening to encompass a variety of activities ranging from policies and charitable events to more formal learning opportunities with the objective of engaging all employees, regardless of gender, to make gender diversity part of 'business as usual' operations.

Strategic imperative	Long-term outcome sought	Objective for FY12
Diverse talent pipeline	Increase the number of females hired by Macquarie, by increasing the rate of female applications	Embarking on a long-term plan to attract females to a finance career: <ul style="list-style-type: none"> — conduct research with female undergraduates to better understand the industry-wide imbalance in female applicants, address the perceived barriers and articulate the unique value proposition of a finance career for females — strengthen relationships with female undergraduates through campus-based initiatives such as mentoring, student societies and academic prizes/scholarships — widen the talent pool of potential senior female applicants through targeted research and sourcing programs
Inclusive workplace	Retain top talent by ensuring a workplace supportive of female success	Raise awareness of Macquarie's commitment to supporting females in their development of successful careers through endorsement and delivery of a range of programs, events and policies
Robust meritocracy	Ongoing improvement of core talent processes (performance, development and career) to ensure gender-based equity and transparency	Continue to enhance Macquarie's development offerings including the review of all leadership and management development programs to incorporate key diversity concepts
Integration and awareness	Embedding of diversity awareness and objectives into the day-to-day operations of the organisation to become part of the way we do business	Incorporate diversity-related messaging into newsletters, conferences and other communication forums with staff Equally engage the male and female staff population in diversity-based initiatives such as training programs and networking opportunities

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

To gain a complete view of Macquarie's approach to environmental, social and governance issues, these pages should be read in conjunction with other sections of this Annual Report including: Macquarie Group Foundation, Corporate Governance Statement, Diversity, Risk Management, Remuneration and the Financial Reports.

The year to 31 March 2011 saw a continued increase in sustainability and ESG activity by Macquarie. During this period Macquarie:

- met its commitment to neutralise emissions from office energy use and corporate air travel, including a cumulative reduction in electricity emissions per staff member of more than 15 per cent since 2009, despite a number of acquisitions
- published 26 specialist ESG research publications for clients, investors and staff
- relocated London staff to its new BREEAM Excellent rated Ropemaker Place premises
- implemented its global Environmental Management Plan (EMP) and completed sustainability audits of Macquarie offices worldwide
- developed a bespoke ESG training program for staff
- continued to build business in global carbon markets, clean technology and renewable energy
- made an ongoing contribution to public policy reviews
- supported staff-driven sustainability initiatives across its offices from local conservation efforts to participation in events such as Earth Day and Earth Hour.

Policy and governance

Macquarie has a framework of ESG-related policies that apply across all divisions and entities of Macquarie, covering the following areas:

- corporate governance
- identification and management of environmental risk and Occupational Health and Safety (OHS)
- selection and management of investments and business activities
- ethical conduct by staff, including support from Integrity Officers
- sustainable management of Macquarie business premises
- provision of a safe, diverse and appropriate workplace, including a network of Equal Employment Opportunity Officers
- dealings with external parties such as regulators and public officials
- whistle blowing, anti-corruption and anti-money laundering policies
- greenhouse and energy management and reporting
- management of business and staff conflicts of interest
- engagement by Macquarie and its staff in the wider community through volunteering and pro bono activity, capacity building and staff donations matched by the Macquarie Group Foundation.

This framework is underpinned by Macquarie's *Goals and Values* and *Code of Conduct*. It is also supported by business-specific policies addressing ESG issues in a manner appropriate to their operations. For example, environmental and social responsibility management in asset selection, integration of ESG factors into quantitative analysis and ESG engagement in private equity portfolios.

All Macquarie staff share a responsibility for identifying and managing ESG issues as part of normal business practice. They are supported by Macquarie's:

- Board and Management
- Risk Management Group
- Integrity Officers and Equal Employment Opportunity Officers
- Sustainability Advisory Committee comprising senior executives from across the businesses
- Sustainability and Environment Office
- Research, training and seminars on sustainability and ESG issues.

Where appropriate this involves the use of independent assessments, development of compliance plans and regular reporting of environmental risk management and compliance consistent with Macquarie's Environmental Risk Management Framework. For the financial year to 31 March 2011 Macquarie is not aware of any material environmental issues or penalties within businesses it controls.

Sustainability

continued

Sustainability and Environment Office and Sustainability Advisory Committee

Macquarie's Sustainability and Environment Office coordinates the diverse range of sustainability and ESG activity undertaken across Macquarie. The Office provides advice on policy development and acts as a central contact point for staff-driven sustainability initiatives.

Macquarie's Sustainability Advisory Committee comprises senior Macquarie executives whose business roles or compliance functions intersect with ESG issues. The Committee operates as a Macquarie-wide review board for ESG policy development and plays an important role in guiding Macquarie's ESG approach by making recommendations to Macquarie's Executive Committee and Board. The Sustainability Advisory Committee also seeks to identify opportunities arising from ESG issues such as new products, markets and relationships.

Direct operations

Macquarie's Environmental Management Plan integrates resource efficiency and sustainability into the day-to-day management of Macquarie's offices as well as corporate operations such as air travel and procurement. In the past twelve months, key outcomes of the EMP include:

- meeting Macquarie's Carbon Commitment across global corporate office energy use (scope 2 electricity) and air travel (scope 3 short, medium and long-haul flights)
- reducing electricity emissions per staff member by a further 4.5 per cent in the FY2011 reporting period compared to FY2010, bringing the cumulative reduction to 15.3 per cent since the 2009 base year
- relocating to new BREEAM Excellent rated London premises at Ropemaker Place in line with Macquarie's commitment to sustainable offices
- completing sustainability audits of Macquarie corporate offices worldwide and developing site-specific sustainability plans
- implementing and improving waste management and recycling systems in all offices housing more than 100 staff
- virtualising 34 per cent of servers in data centres, exceeding the 20 per cent target
- increasing and promoting video conferencing
- reducing paper procurement options with the aim of purchasing only Forest Stewardship Council certified products
- engaging with key suppliers to enhance sustainable procurement practices throughout the supply chain
- appointing Sustainability Managers in regional hubs to drive ongoing improvements in resource efficiency and achievement of EMP targets.

Macquarie's Carbon Commitment

In 2009 Macquarie made a commitment to become carbon neutral across its global corporate office energy use and corporate air travel by December 2010. This 'Carbon Commitment' included a target to reduce emissions from electricity use by 10 per cent per staff member. The Carbon Commitment was one of a number of initiatives responding to the risks and opportunities arising from climate change. It built on Macquarie's investments in renewable energy and clean technology, activity in environmental markets and status as a signatory to the Carbon Disclosure Project (CDP).

The Carbon Commitment was fulfilled ahead of the December 2010 deadline. Within this commitment, the electricity emissions target was met with an electricity emissions reduction of 11.24 per cent per staff member for the 12 month period ended 31 March 2010 compared to the 12 month baseline period ended 31 March 2009. A number of measures contributed to the reduction in emissions intensity, including:

- relocation of more than 3,500 staff in Sydney and Hong Kong to new energy efficient premises
- relocation of data centres in Sydney and Hong Kong to purpose built facilities
- consolidation of servers across global data centres (server virtualisation)
- ongoing transition from PCs to more energy efficient laptops.

Energy efficiency measures, particularly in Australian offices, delivered large scale savings and resulted in the overall reduction in emissions intensity per staff member. At the same time Macquarie's corporate premises portfolio grew by approximately 25 per cent due to international acquisitions, resulting in a slight increase in absolute electricity emissions for FY2010.

To offset the remaining emissions, Gold Standard and Voluntary Carbon Standard carbon credits were purchased from renewable energy projects in Turkey, China and India. These projects, supported by the sale of carbon credits on international markets, provide sustainable energy solutions to the countries and communities in which they operate.

Macquarie has since maintained its Carbon Commitment by working to reduce electricity emissions. In FY2011 emissions from electricity use per staff member fell by a further 4.5 per cent on the previous year, bringing the cumulative reduction to 15.3 per cent over the FY2009 baseline. Carbon offsets have also been purchased and retired for the year to 31 March 2011. Macquarie has previously obtained assurance over the reduction in electricity emissions per employee between FY2009 and FY2010 and the purchase and retirement of carbon offsets to account for FY2010 emissions from corporate offices and corporate air travel.

Carbon and energy data for corporate offices and business air travel¹

	Baseline		Prior year %	Change	
	FY09	FY10		FY11	Prior year %
All carbon units calculated as CO₂-e t					
Scope 2 indirect electricity emissions per capita	3.93	3.49	(11.2)	3.33	(4.5) (15.3)
Total Scope 2 indirect electricity emissions	49,632	50,923	3	51,682	(1.5) (4.13)
Australia/NZ	31,874	31,881	0.0	28,883	(9.4) (9.4)
International	17,758	19,042	7.2	22,799	19.7 28.4
Office square metres	291,000	365,000	25.4	360,000	(1.4) 23.7
Electricity consumed from corporate offices (TJ)	236.7	250.93	6.0	266.51	6.2 12.6
Scope 3 indirect emissions Business Air Travel	– 78,018	–	79,330	1.7	1.7
Total Scope 2 and Scope 3 emissions	– 128,941	–	131,012	–	–

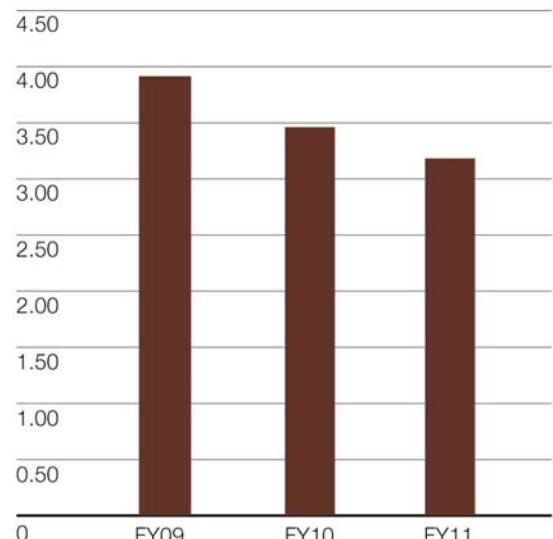
¹ Corporate offices are defined as:

- Offices leased by MGL operating entities around the globe which are also occupied by MGL staff and have a Net Usable Area (NUA – the area that can be fitted out by the tenant) greater than 100m².
- Data centres around the globe considered to be under the ongoing 'operational control' of a Macquarie Group operating entity. In this instance 'operational control' is defined with reference to the Australian National Greenhouse and Energy Reporting Act (2007).
- New offices from business acquisitions from the month of acquisition.

Business air travel is defined as travel ticketed through Macquarie's Travel Management Companies for the primary purpose of business. Note that FY2010 will be considered the base year for air travel emissions for future comparisons.

Further details regarding the preparation of carbon and energy data are provided on page 260.

Per capita emissions (CO₂-e t)



Source: Business Services Division

Sustainability

continued

Commitment to sustainable offices

The focus on sustainable buildings represents the greatest opportunity to reduce direct resource consumption and greenhouse emissions over the medium and long term. Based on the positive impact of Macquarie's 6 Star Green Star office at 1 Shelley Street in Sydney, a commitment was made that all new premises should be constructed to achieve high sustainability ratings.

Opened in March 2011, Macquarie's new Ropemaker Place premises in London has been awarded a BREEAM Excellent rating, highlighting the building's environmental features and best practice sustainable design. Resource efficiency features of the building include:

- biomass boiler and solar thermal heating panels providing pre-heating for water
- 800 square feet of photovoltaic roof panels, generating 12,000kWh of clean power per year
- water efficiency devices and rainwater harvesting, which will save an estimated 5.4 million litres of water per year
- green roof space occupying 50 per cent of the total roof area.

Sustainable fit-out features include energy efficient lighting, best practice recycling systems, 95 per cent of carpets with a BRE A+ rating, 100 bicycle racks and central internal staircases to reduce lift use.

These features are consistent with the commitments and targets of Macquarie's EMP which aims to minimise the environmental impact of direct operations.

Investments, markets and products

While Macquarie's overarching approach aims to embed ESG as part of normal business practice, a number of businesses have a specific focus on these issues.

ESG research and training

ESG issues are increasingly acknowledged as key non-financial factors that can influence the performance of investment portfolios. Macquarie's focus on this area forms part of its detailed analysis of listed stocks around the world and adds an important layer to its analysis. An integrated approach to ESG research, giving top-down analysis followed by bottom-up stock valuations, has gained interest from institutional investors. As a result of its focus on ESG issues and engagement with a broad range of ESG-interested parties, Macquarie has performed well in emerging peer ESG rankings.

In the past 12 months Macquarie released 26 ESG reports through its key publications:

ESG exploration

A quarterly analysis of a key ESG issue and its impact across sectors and stocks

ESG dynamics

Macquarie also publishes sector-specific and policy-specific pieces, providing detailed analysis of key ESG issues for specific stocks. These include modelling of the renewable energy market, the impact of climate change on insurance, changes in corporate governance diversity guidelines, carbon pricing in supply chains, industrial relations and employee engagement.

In FY2011 Macquarie developed a tailored ESG training program for analysts across its diverse businesses. This program was developed as part of Macquarie's commitment to address material ESG issues in an integrated way and to assist its clients to do the same.

Macquarie also holds an annual ESG Symposium bringing together clients, staff, industry representatives and ESG experts to examine material issues and trends. Sustainability and ESG seminars are also offered to all staff throughout the year, covering topics such as: climate change policy, energy markets, food security and reducing environmental impact.

Investment and advisory in renewable energy

Macquarie and Macquarie-managed businesses have long been active investors and advisors in the renewable energy and clean technology sectors. Over the past 12 months new activities included:

- acquiring a 396MW late stage wind development project in Mexico with other co-developers
- continuing to develop several wind projects in Australia including the 55MW Mumbida wind farm in Western Australia in joint venture with Verve Energy
- assessing new transmission opportunities to unlock large scale renewable energy generation in South Australia
- advising companies commercialising technologies for wastewater treatment, clean coal, and low carbon intensity building materials.

Trading environmental products

Macquarie's Environmental Financial Products team brings its depth of experience as a top-tier global commodities trading and finance house to the environmental markets. With staff in London, Hong Kong, Beijing and Sydney the team continues to provide:

- a full-service trading desk making markets in European Union emissions allowances and dealing in certified emission reductions from developing countries as well as domestic emission allowances and renewable energy certificates across multiple jurisdictions
- international emissions reduction projects for direct investment and carbon credit purchase
- inventory financing for environmental markets compliance unit holdings
- derivative financing and debt/equity investment for emissions abatement and renewable energy projects
- tailored environmental risk management solutions from simple hedge structures to complex structured derivatives.

In an acknowledgement of its emissions trading expertise, Macquarie was recently voted Best Trader by its international peers in the 2011 Carbon Market Awards sponsored by Thomson Reuters/Point Carbon.

Acting as principal, the team also closed a number of equity-related transactions, including a \$US25 million investment in UPC Renewables China (UPC). UPC is a Hong Kong-based wind power business, whose principal activity is developing, constructing and operating wind power projects throughout the People's Republic of China.

Investing in the environmental and electricity market infrastructure

Macquarie Global Investments is a majority owner of the Envex JV (established by Macquarie in 2008) along with the Financial Energy Exchange (FEX) and the Intercontinental Exchange (ICE). Envex has worked with FEX to launch the Mercari Environmental Markets over-the-counter trading platform. Mercari is now installed in approximately 30 dealing rooms in Australia and provides trading services in respect of renewable energy and a range of carbon products.

Envex also owns a majority stake in the leading Australian environmental and electricity markets brokerage Next Generation Energy Solutions (NGES) as well as the leading platform for trading of third party water rights in Australia, The Water Exchange. Envex is continuing to invest into the development and growth of financial infrastructure for these important markets.

Avoiding deforestation

Since 2009 Macquarie has been involved in developing projects to invest in the retention of forests at risk of deforestation and generate carbon credits for sale on international markets. This pioneering model is demonstrating the ability to link carbon finance to conservation and reduce deforestation.

Initial projects are located in Indonesia and have been developed in partnership with conservation organisation Fauna & Flora International. The forest carbon projects will seek accreditation from world-leading carbon standards including the Voluntary Carbon Standard and the Community Climate and Biodiversity Standard. Avoided emissions from these projects will be certified as carbon credits available to international markets. The credits will be available for purchase by entities taking voluntary action to reduce emissions as well as future compliance schemes that recognise this form of abatement. Avoiding deforestation will be a key component of international efforts to prevent climate change.

Sustainability

continued

Specialised investment products

Clean technology funds	Not-for-profit investment services	Delaware SRI products
<p>Macquarie Clean Technology Fund was one of the first of its kind, providing a diversified portfolio of private equity investments that focus on technologies that improve energy efficiency and reduce negative environmental impacts. The fund makes capital commitments to underlying private equity fund investments as well as to co-investments, where they are made in conjunction with fund managers. Macquarie Clean Technology Fund II was subsequently launched in response to an increasing demand for clean technology and sustainable energy investments.</p>	<p>Macquarie Private Portfolio Management (MPPM) specialises in assisting not-for-profit organisations to design and implement tailored investment management solutions. Investment portfolios are customised to align with the goals of the organisation and reflect its specific ESG interests or screening preferences. For clients seeking guidance on ESG aware investments, Macquarie provides model portfolios with a broad, socially responsible investing bias. The MPPM proprietary research process also includes consideration of ESG factors which inform investment decision making.</p>	<p>Delaware Investments has longstanding experience in socially responsible investing (SRI) and offers a number of SRI products to investors. The Delaware Socially Responsible strategy applies a screening methodology to focus on investing in companies that incorporate positive ESG behaviour into their business operations. The screen is a blend of balanced scorecard and negative screening approaches. Total assets of \$US701 million were being managed in this strategy as of 31 March 2011.</p>

Accelerating smart metering

Macquarie has increased funding lines to energy suppliers in the UK to accelerate the roll-out of smart energy meters to assist efficient energy management in both the industrial and commercial, and residential sectors. Macquarie has recently signed several significant additional smart meter funding contracts which should result in leasing more than 400,000 smart electricity and gas meters by 31 March 2012. Macquarie is also funding the roll-out of smart electricity and gas meters for two other major energy companies in the UK, one of which is a major pilot program of residential smart meters. Macquarie will continue to work closely with the UK Government and energy suppliers to facilitate an effective roll-out of smart meters to 27 million homes by the end of 2019.

Approach to climate change

Macquarie continues to seek business opportunities associated with climate change mitigation and adaptation. Macquarie's approach to climate change is based on:

- assessing and managing its own carbon footprint
- identifying, assessing and managing the risks arising from climate change and future carbon constraints
- identifying and leveraging opportunities for investment and trading for Macquarie and its clients.

Consistent with Macquarie's strong risk management focus, climate change and future carbon constraints are considered within the existing risk framework. Under this framework:

- businesses are responsible for considering greenhouse and energy management during due diligence for new businesses and products
- Macquarie's *Greenhouse and Energy Reporting Policy* addresses local legislative requirements through tailored jurisdictional guidelines
- Macquarie provides clients and staff with research and information about the economic, policy and business impacts of climate change
- Macquarie also uses its expertise in global carbon markets to assist clients to prepare for compliance with emissions trading and provides emissions risk management products.

Macquarie does not consider its businesses to have any material exposure to climate change regulatory risk. Macquarie continues to monitor developments in climate change regulation around the world.

As a signatory to the Carbon Disclosure Project, Macquarie reports detailed information about its approach to the risks and opportunities arising from climate change. Macquarie's annual responses are available on the Carbon Disclosure Project website.

Public policy and political engagement

Macquarie supports strong and vibrant democracies and contributes to public policy reviews on a range of matters both directly and through its membership of industry associations. Macquarie's Government Relations team has lead responsibility for maintaining relationships with key government and public sector stakeholders and engaging in policy development through government and parliamentary consultations and inquiries.

Importantly, any requests for financial assistance are assessed with the aim of ensuring that multi-party systems deliver both good government and good opposition. In Australia, Macquarie achieves this objective by providing equal financial assistance to the major political parties at the State and Federal level. Macquarie also applies this policy in the other jurisdictions where it operates, subject to the political systems and laws which apply in those jurisdictions. Macquarie discloses all of its political contributions in Australia to the Australian Electoral Commission on an annual basis.

Preventing corruption and money laundering

Macquarie is committed to conducting its business in accordance with all applicable laws and regulations and in a way that enhances its reputation in the market.

Macquarie is committed to being a responsible participant in the financial markets in which it operates. It maintains a robust risk management framework that reduces the risk of its products and systems being used for the crimes of money laundering and terrorist financing. The framework also supports Macquarie's anti-corruption and anti-bribery initiatives. The framework includes policies and procedures, training, governance, escalation protocols and on-going assurance activities to confirm compliance by Macquarie employees globally. This framework ensures that Macquarie:

- meets its ethical obligations to the economies in which Macquarie does business
- contributes to the stability, integrity and strength of the global financial system
- establishes the core principles that guide the way Macquarie identifies, mitigates and manages the risk of money laundering, terrorist financing and corruption.

All Macquarie employees globally are required to undertake training to understand their obligations under the relevant laws and regulations governing anti-corruption, anti-bribery and anti-money laundering.

Additional country-specific training modules are mandatory in locations where obligations are unique to that jurisdiction. In the year to 31 March 2011 Macquarie staff globally completed mandatory annual compliance training which supported ongoing knowledge of obligations in these areas.

Regulatory expectations continue to evolve in the areas of anti-money laundering, counter terrorist financing and corruption. Macquarie is committed to being at the forefront of adopting new regulatory requirements, ensuring the highest ethical standards are maintained for the benefit of all its stakeholders including shareholders, employees and customers.

Integrity and good decision-making

Macquarie understands that integrity is crucial to its continued success. We respect the trust that our clients, shareholders and the broader community place in us as an organisation and we are committed to honesty in our approach and actions.

The integrity of an organisation is maintained by the people that work within it. All 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 that all Macquarie business is conducted in accordance with sound ethical practices and the Goals and Values of the organisation.

Macquarie has Integrity Officers in each region to:

- develop and implement strategies addressing issues of integrity in the conduct of its business
- educate and advise management and staff regarding integrity issues
- ensure that any integrity-related staff concerns are dealt with impartially, promptly and confidentially.

Macquarie has whistleblower policies and protections in each of the jurisdictions in which it does business. These policies accord with both legislative requirements and best practice recommendations.

Macquarie seeks to foster a working environment that enables employees to voice genuine concerns in relation to:

- a breach of Macquarie's *Goals and Values* and relevant legislation
- financial malpractice, impropriety or fraud
- failure to comply with legal obligations
- danger to health and safety or the environment
- criminal activity
- attempts to conceal any of the above.

The Integrity Office ensures that the policies are understood and respected and that the rights of all parties are respected and maintained.

Sustainability

continued

The Integrity Office of Macquarie draws on Dr Simon Longstaff of the St James Ethics Centre as an independent advisory resource. In partnership with the St James Ethics Centre, the Integrity Office developed an Ethics, Integrity and Good Decision-Making course that has been introduced to all staff worldwide. A second module for this program is now under development. Macquarie's Integrity Office also works with a variety of educational institutions to ensure that ethical considerations are included in both course development and content.

Promoting a safe and diverse workplace

The diversity of its people is fundamental to Macquarie's success. The broad range of their experiences, skills and views are key strengths and are critical to the scope of services that we deliver to clients and the communities in which we operate.

Macquarie has a range of programs to support our diverse workforce, including:

- paid time off and flexible working programs
- employee assistance programs
- childcare options
- networking events
- mentoring programs
- *Women@Macquarie*
- lifestyle benefit programs.

More detailed information about Macquarie's approach to diversity is provided on page 47.

Macquarie recognises the value of a safe workplace and the importance of Occupational Health and Safety (OHS) as an integral part of its business. Macquarie is committed to the implementation of safe work practices and aims to provide an injury free workplace for all of its employees. This commitment reflects the high standards Macquarie seeks to maintain across the wide range of activities it undertakes in diverse locations across the world.

Macquarie takes all reasonable and practical steps to promote a proactive approach to health and safety matters and aims to continually improve its OHS practices across the organisation, which includes the regular review of established policies, procedures, systems practices and outcomes.

Consultation committees in Australia and New Zealand, Canada and EMEA convene on a quarterly basis to discuss matters relating to employee health and well-being. Monthly communication with nominated representatives across our regions occurs to ensure global consistency in matters relating to health and safety.

Macquarie provides its employees with a healthy working environment that is free from discrimination and harassment. It is therefore compulsory for all Macquarie staff and contractors who have been with the Group for more than three months to complete Appropriate Workplace Behaviour training. The program covers anti-discrimination and OHS laws, harassment and sexual harassment. Macquarie's

complaints handling procedure, OHS obligations and management of OHS at Macquarie.

Supporting professional development

Macquarie recruits talented individuals and encourages them to realise their potential in an environment that values creativity and innovation. Macquarie provides learning opportunities tailored to individual core performance competencies and business focus, so employees can follow a learning pathway that evolves with their career and professional development. This includes access to regional and globally tailored development programs, delivered via internal and external classroom courses, online courses and on the job learning.

Macquarie Global Learning offers a range of continuous learning opportunities in leadership, management, professional technical skills and business development expertise.

Macquarie provides customised programs in management and leadership development; executive coaching and mentoring; personal development and organisational improvement; orientation and induction. The Global Learning team also spends time creating partnerships with individuals, teams and divisions to identify and address their specific development needs to ensure individuals achieve excellence – based on the core values of Macquarie.

In Macquarie's merit-based culture regular appraisals form a key part of performance measurement, goal-setting for the ensuing year and ongoing career development. Macquarie policy requires that all staff have at least one formal appraisal session with their manager each year, and this session must produce a documented outcome. Some divisions also have formal half-year reviews. Employees are also encouraged to seek regular and ongoing feedback as to their performance and initiate regular discussions with their managers as required.

Appraisals comprise a self assessment process to evaluate an individual's performance against defined criteria. Managers will also evaluate the employee's performance against the same criteria.

About these disclosures

Macquarie has used the Global Reporting Initiative as the guiding framework for sustainability disclosures contained within the Annual Report. Consistent with Macquarie's approach to sustainability, information concerning governance, environment, social and economic performance is presented throughout the Annual Report rather than as a separate disclosure. This content has been selected to cover issues of material interest to our stakeholders and significance to our ongoing business performance as a financial services institution. Macquarie's key stakeholders are shareholders, clients, investors, counterparties, employees, regulators, analysts and communities in which it operates. A GRI index is contained on page 258.

Risk Management Report

Introduction – Macquarie's risk management framework

Macquarie Group's (Macquarie) risk management framework is well established and proven. The core principles that drive this framework 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. This approach was tested 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. Whilst 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) which 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.

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 will be covered by earnings and surplus capital. In line with this, during the recent global financial crisis, write-downs were more than covered by the earnings generated by Macquarie.

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. Key aspects supporting this 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 actually influencing and limiting positions particularly for 'tail risks'.

For example, we apply limits to contingent losses from a 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 tail risks. We have over 13,000 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 focuses on providing an independent confirmation of the risk acceptance decision. RMG works closely with the deal team with the shared 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 Management Report

continued

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 Chief Executive Officer.

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

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 has responsibility for ensuring an appropriate risk management framework – including the establishment of policies for the control of risk – is in place. The Board Risk Committee receives information on the risk profile of Macquarie, breaches of the policy framework and external developments which 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) assesses the effectiveness of internal controls in its role of oversight of the quality and integrity of Macquarie's accounting, auditing and financial reporting. The Board Audit Committee monitors and reviews the effectiveness of the Internal Audit and Credit Assurance functions
- The Board Remuneration Committee liaises with the Board Risk Committee and the Chief Risk Officer to ensure there is a properly integrated approach to remuneration that appropriately reflects risk
- The Board Corporate Governance Committee (BCGC) reviews Macquarie's corporate governance arrangements and compliance matters.

Committees exist at the executive management level to ensure that the necessary elements of expertise are focused on specific risk areas. The Macquarie Group and Macquarie Bank Limited (Macquarie Bank)

Executive Committees and the Macquarie **Operations Review Committee** focus on strategic issues, operational issues, material transactions 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 (e.g. Market Risk Committee and Asset and Liability Committee).

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 Chief Risk Officer, reports directly to the Managing Director and Chief Executive Officer with a secondary reporting line to the Board Risk Committee. RMG approval is required for all material risk acceptance decisions

Centralised prudent 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 prudent 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

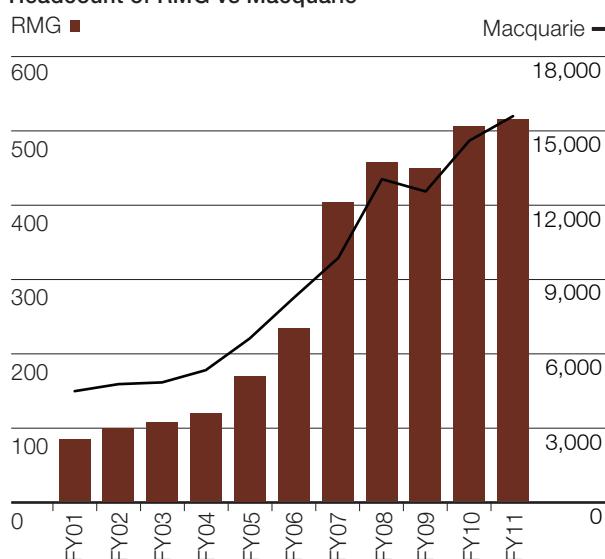
RMG structure and resourcing

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.



Growth in RMG has been consistent with overall Macquarie Group growth in previous years. During the year, Macquarie Compliance was formed combining business-aligned compliance staff with RMG Compliance staff. Previously, RMG acted in a risk oversight role of the business compliance function whereas business-aligned compliance teams now report directly to RMG. RMG staff numbers increased over the past year by 2 per cent to 509 (FY10 headcount restated for Macquarie Compliance).

Headcount of RMG vs Macquarie



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.

Risk Management Report

continued

To ensure that, on a global basis, risks are managed in a controlled manner, 51 per cent of total RMG staff as at 31 March 2011 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. The majority of operational risk and compliance functions are therefore discharged within the Operating Groups. Business-aligned compliance staff ensure that day-to-day compliance obligations are discharged at the business level whilst 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. As at 31 March 2011, there were more than 220 staff performing such functions within the Operating Groups in addition to the business-aligned compliance staff now included in RMG. All business-aligned compliance staff have a reporting line to the RMG divisional head of Compliance whilst divisional operational risk staff 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 new business approval process is a formal process whereby all relevant risks (e.g. market, credit, equity, legal, compliance, taxation, accounting, operational and systems issues) are reviewed, to ensure that the transaction or operation can be managed properly and will not create unknown or unwanted risks for Macquarie in the future. The approval of RMG, Finance Division, Taxation Division and other stakeholders within Macquarie is 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 and ensures the necessary approvals are obtained.

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 12 months following acquisition or launch and includes confirmation that operations are in line with the approved new product approval document.

Recent acquisitions have now been fully integrated

The new business approval process was closely followed on the six major acquisitions undertaken by Macquarie over the past two years. These firms have now been fully integrated into Macquarie and operate across a range of activities including:

- energy trading
- energy advisory
- equity derivatives and cash equities
- funds management
- wealth management
- financial advisory

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 without exception.

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 positions are subject to an aggregate Equity Risk Limit (ERL). The ERL is set by the Board with reference to the Risk Appetite Test which 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.

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 Managing Director and Chief Executive Officer, 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.

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 repaid, 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 Group 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 adequately assessed.

Operating Groups are assigned modest levels of credit discretions. Credit exposures above those levels are assessed independently by RMG and approved by senior RMG staff, the Managing Director and Chief Executive Officer 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 credit exposures are subject to annual review.

Independent analysis

The RMG Credit team provides independent analysis of credit risk exposures. The teams work closely with the Operating Groups to identify the risks inherent in Macquarie's businesses, and apply analysis appropriate 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 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 but uses fundamental credit analysis to make credit risk acceptance decisions.

Macquarie Group ratings

Macquarie relies on its own independent assessment of credit risk. Third party credit assessments are considered as an input into the analysis but are not considered to be a sufficient basis for decision making.

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

All customer limits and exposures are allocated an MG rating on a 1–13 scale which broadly correspond with Standard & Poors and Moody's Investor Services credit ratings. Each MG rating is assigned a Probability of Default estimate. Credit limits and exposures are also allocated a Loss Given Default ratio reflecting the estimated economic loss in the event of default occurring.

Macquarie has an independent Credit Assurance function within RMG to provide assurance over the effectiveness of credit risk management throughout Macquarie.

Measuring and monitoring exposures

Credit exposures for loans are evaluated as the full face value.

Credit exposures for derivatives are a function of potential market movements and are assessed by assuming that low probability stressed market movements occur and that Macquarie has to go to the market to replace a defaulting deal at the worst possible time during the term of the transaction. The level of stress that is applied to individual markets is reviewed and approved by RMG periodically or when volatility or market conditions dictate.

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. Credit exposures which fluctuate through time are monitored daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

To mitigate credit risk, 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.

Risk Management Report

continued

On and off-balance sheet exposures are considered together and treated identically for approval, monitoring and reporting purposes.

A review of the credit portfolio analysing 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 economic sector, counterparty, or country.

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, which 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.

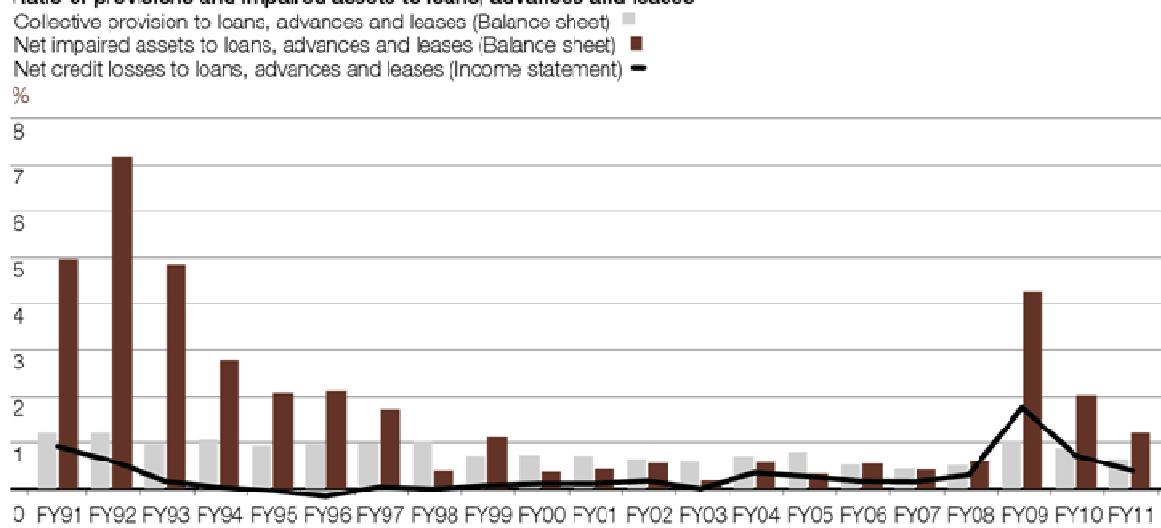
Specific provisions are recognised where specific impairment is identified. The rest of the loans are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

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

Country risk

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 which is considered to be higher risk, a full 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.

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



Note:

- ¹ Loan assets excludes securitised mortgages, securitised Macquarie Capital loans/leases, segregated future funds and receivables in the form of fees.
- ² Net impaired assets and net losses exclude investment securities.
- ³ Collective provision (as per note 10 of Financial Statements) is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable.
- ⁴ 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.
- ⁵ Please refer to note 10 of the Financial Statements for further information on impaired assets.

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 would be 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. It 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 behaviour in Macquarie's day-to-day management of operational risk

- Macquarie-wide policies which 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 business manager. These representatives ensure 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 which 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 result in very high impact losses. In identifying the potential for such losses consideration is given to 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. Results 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.

Over time operational risk capital changes to reflect:

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

Risk Management Report

continued

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.

and to the correlation of market prices and rates within and across markets.

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.

Trading market risk

RMG monitors positions within Macquarie according to a limit structure which sets limits for all exposures in all markets. Limits are applied at a granular level to individual trading desks and also, through increasing levels of aggregation to divisions and Operating Groups, 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 remain the ultimate responsibility of the business. Macquarie adheres to a strict 'no limit, no dealing' policy. If a product or position has not been authorised by RMG, then it cannot be traded. Material breaches of the approved limit structure are communicated monthly to the Macquarie Bank and Macquarie Group 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.

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

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 regularly reviewed by RMG 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 have 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 over the financial year as trading business recovered from the low levels of risk and activity observed during the Global Financial Crisis. This was accompanied by the expansion of trading businesses into new markets internationally. The average exposure to the MEL stress test scenario represents less than 4 per cent of total equity.

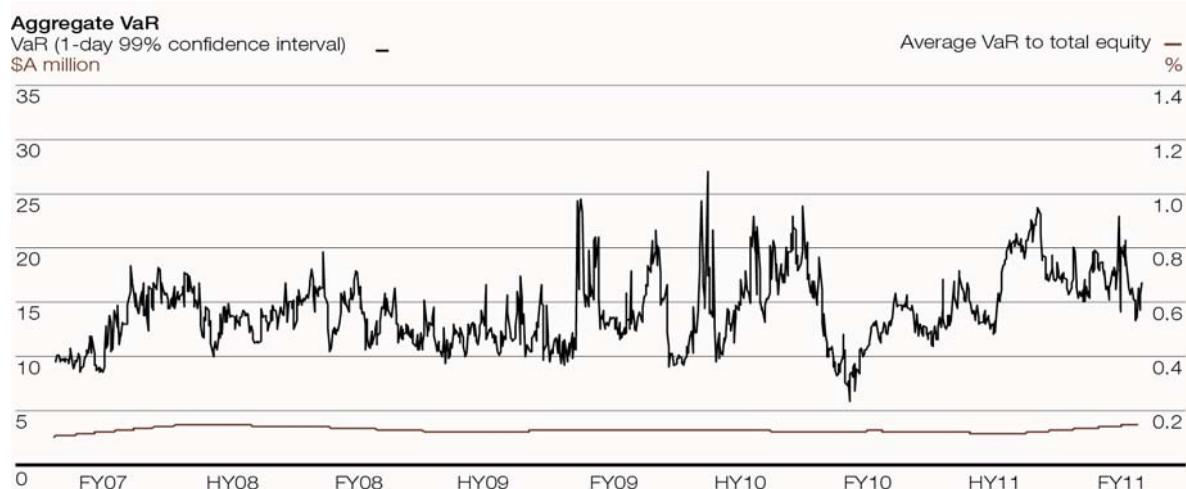
Value-at-Risk

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.

VaR remains modest in comparison to total capital and earnings and continues to represent less than 0.2 per cent of total equity.

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 1,400 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 increased over the financial year as trading activity expanded internationally. 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.



Risk Management Report

continued

VaR figures for year ended 31 March

	2011 Average \$Am	2011 Maximum \$Am	2011 Minimum \$Am	2010 Average \$Am	2010 Maximum \$Am	2010 Minimum \$Am
Equities	9.53	19.30	4.35	6.66	20.92	2.80
Interest rates	5.83	10.72	3.67	4.34	6.65	3.09
Foreign exchange and bullion	3.61	10.55	1.08	3.59	10.50	0.57
Commodities and energy	11.64	16.34	7.63	10.95	16.98	5.37
Aggregate	16.00	23.50	11.04	14.26	26.70	6.06

Trading revenue

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

As trading business grows, 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 whilst allowing growth in those markets where significant gains can be realised. This is evident in the histogram below which shows that Macquarie made a net trading profit on 206 out of the 261 trading days (2010 results: 217 out of 260 trading days).

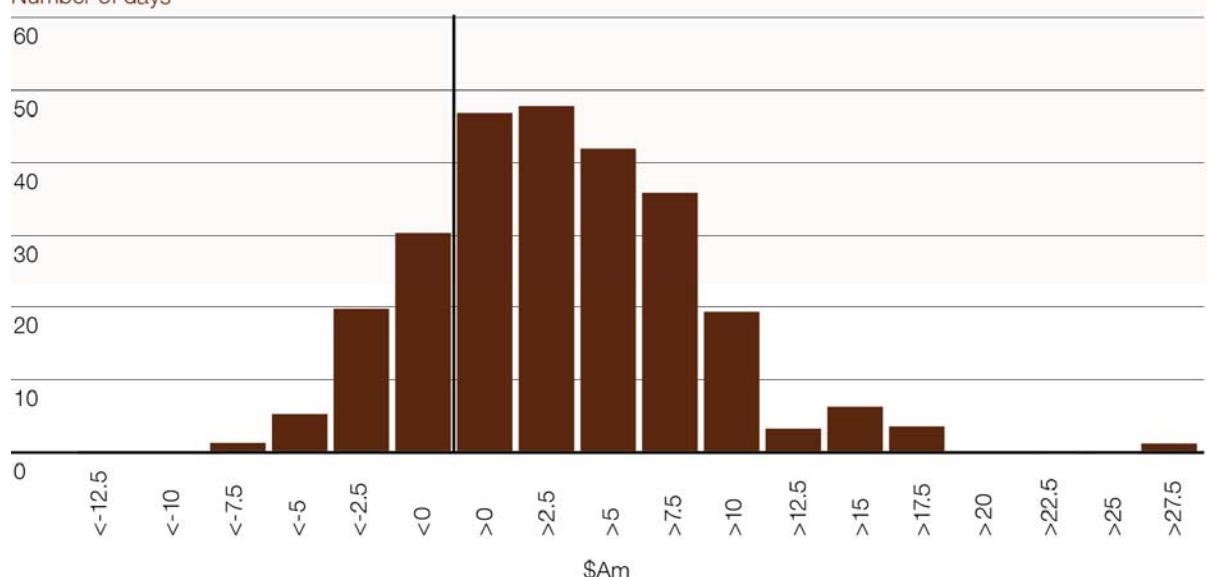
Non-traded market risk

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 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 not material but are nevertheless monitored and controlled by RMG and reported to senior management regularly.

Macquarie's trading activities generated a net profit on 206 out of the 261 trading days in the financial year to 31 March 2011.

Daily trading profit and loss

Number of days



Economic capital

Macquarie has developed an economic capital model that is used to quantify 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 just 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.

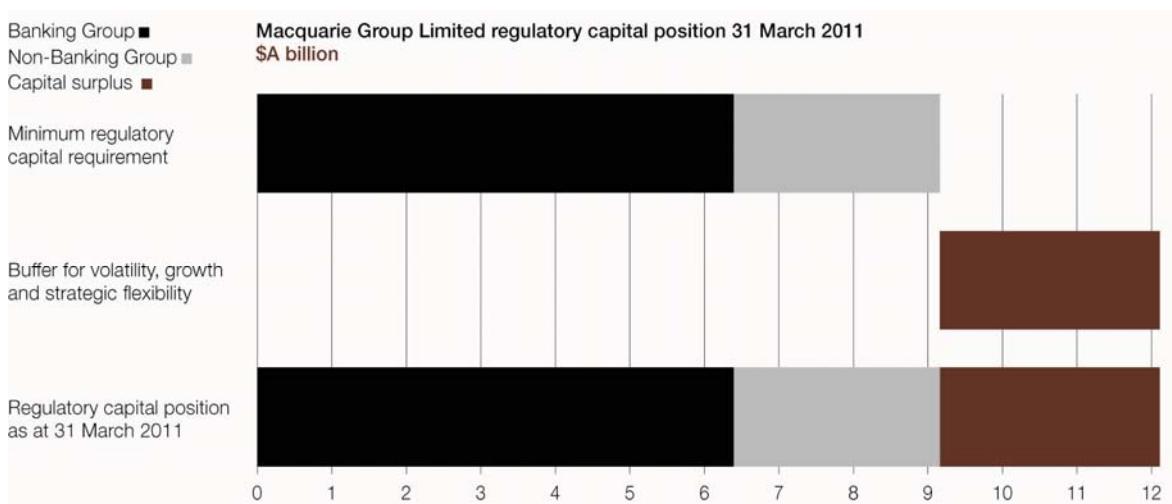
Potential losses are quantified using the Economic Capital Adequacy Model (ECAM). These potential losses are compared to the capital resources available to absorb loss, consisting of book equity and eligible hybrid equity. Earnings are also available to absorb losses, however only a fraction of potential earnings is 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 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, as noted in the preceding table. Macquarie's regulatory capital position as at 31 March 2011 is set out below.



Risk Management Report

continued

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 Tier 1 and total capital ratios for the Banking Group as at 31 March 2011 were 10.7 per cent and 12.4 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.

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: 1. aggregate and specific risk limits; 2. relevant policies; and 3. requirement to consider risk adjusted returns.

The Board reviews Macquarie's risk appetite and approves the Global Risk Limit as part of the annual corporate strategy review process.

1 Limits

These consist of specific risk limits given to various businesses and products or industry sectors and also a Global Risk Limit which constrains Macquarie's aggregate level of risk. The Global Risk Limit is set to protect earnings and ensure we emerge from a severe downturn with sufficient capital to operate. The Risk Appetite Test, which is discussed below, measures usage against this limit.

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.

2 Relevant policies

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

3 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. These returns are considered together with other relevant factors by RMG, the Executive Committee and Board in assessing these proposals. Achieving an appropriate return for the additional risk that is proposed is a key focus in deciding whether to accept the risk.

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 which considers losses and earnings under a severe economic downturn scenario.

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.

The Risk Appetite Test assumes:

- a drop in earnings more severe than what was experienced during the global financial crisis
- potential losses more severe than what was experienced during the global financial crisis.

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.

Risk-adjusted performance measurement

As well as measuring risk-adjusted returns for deals as noted previously, risk-adjusted performance metrics for each division are prepared on a regular basis and distributed to Operations Review Committee, the Board and the divisions. Risk-adjusted performance metrics for each division are a significant input into performance based remuneration.

Liquidity risk

Liquidity management

The two primary external funding vehicles for Macquarie are Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL). MGL provides funding principally to the Non-Banking Group and limited funding to some MBL subsidiaries. MBL provides funding to the Banking Group and provides an intra-group loan to MGL.

The high level funding relationships of Macquarie are shown below.

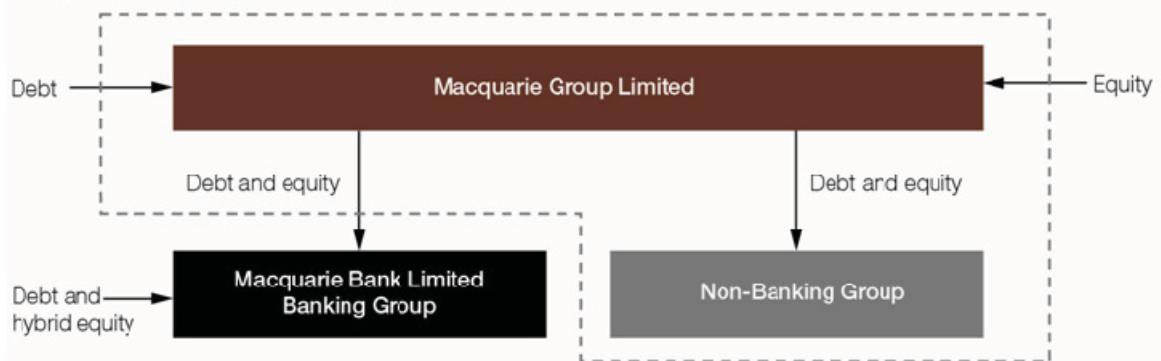
Macquarie's liquidity risk management framework ensures that both MGL and MBL are able to meet their funding requirements as they fall due under a range of market conditions.

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.

The Asset and Liability Committee includes the Managing Director and Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer, Treasurer and Operating Group Heads.

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

Macquarie Group – high level funding relationships



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. The key requirement of the policy is that MGL is able to meet all of its liquidity obligations on a daily basis and 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. MGL has no short-term wholesale funding.

The *MBL liquidity policy* outlines the liquidity requirements for the Banking Group. The key requirement of the policy is that MBL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited impact on franchise businesses.

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

Risk Management Report

continued

The liquidity management principles apply to both MGL and MBL and include the following:

Liquidity and funding management

- all liquidity requirements are managed centrally by Group Treasury
- liquidity risk is managed through setting limits on the maturity profile of assets and liabilities
- a Liquidity Contingency Plan is approved by the Board and reviewed periodically
- a funding strategy is prepared annually
- internal pricing incorporates liquidity costs, benefits and risks to align risk-taking activities with liquidity risk exposures
- diversity and stability of funding sources is a key priority
- liquidity limits
- 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, high quality liquid assets and cash
- short-term assets exceed short-term wholesale liabilities.

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 crises and firm-specific crises. The objective of this modelling is to ensure MGL and MBL's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modelling includes 12 month liquidity scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes and a range of conservative assumptions are used with regard to 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 conditions. The minimum liquid asset requirement is calculated from scenario projections and also complies with regulatory minimum requirements.

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

funding outflows resulting from undrawn commitments, market moves on derivatives and other margined positions. The size of the liquid asset portfolio must always exceed the minimum cash requirement as calculated in this model.

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 assets portfolio held to meet the minimum liquid asset requirement must be repo eligible with a central bank. The remaining 10 per cent must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2011, 98 per cent of the liquid asset portfolio was eligible for repurchase with central banks.

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 commercial paper.

The liquid asset portfolio is largely denominated and held in Australian dollars and to a lesser extent in US dollars or other currencies 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 actions to be taken, and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG and is submitted to the Board for approval.

Funding transfer pricing

An internal funding transfer pricing framework is in place which aims to align businesses with the overall funding strategy of Macquarie. Under this framework the costs of long- and short-term funding are charged out, and credits are made to divisions that provide long-term stable funding.

Regulatory and compliance risk

Macquarie actively manages regulatory and compliance risks to its businesses globally, including the risk of breaches of applicable laws, regulations, rules, statements and regulatory policy.

Regulatory and compliance risk are assessed from a Macquarie-wide perspective to ensure regulatory and compliance risks are identified and appropriate standards are applied consistently to manage these risks. The development of new businesses and regulatory changes, domestically and internationally, are key areas of focus within this role.

During the year, Macquarie Compliance was formed, combining business-aligned compliance staff with RMG Compliance staff. Previously, RMG acted in a risk oversight role of the business compliance function. All compliance teams now have direct reporting lines into RMG.

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, and
- 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 Group Legal. The head of Group Legal is the General Counsel who is a member of Macquarie's Operational Review Committee and who reports directly to the Managing Director and Chief Executive Officer. The General Counsel has access to the Board and any Board committees. Each Macquarie Operating Group has a General Counsel who reports directly to the Group Legal 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) and APRA. *Goals and Values* incorporating a clear code of ethics are communicated to all staff and Integrity Officers are in place to 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 implementation of this framework by RMG is a major mitigant to reputation risk.

The various policies, procedures and practices in place aim to minimise reputation risk and regular reporting to the Operation Review Committees 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) are taken into account in the operational risk capital model.

Internal Audit

Internal Audit provides independent assurance to senior management and the Board on the adequacy and effectiveness of Macquarie's risk management framework. Internal Audit forms an independent and objective assessment as to whether: risks have been adequately identified; adequate internal controls are in place to manage those risks; and 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 Chief Risk Officer; has free access at all times to the BAC; and cannot be removed or replaced without the approval of the BAC.

Risk Management Report

continued

Basel II

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 risk¹ 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.

Regulatory developments

The Basel Committee on Banking Supervision released the final text of the Basel III framework in December 2010. Basel III sets out revised capital rules, a new liquidity framework, a minimum leverage ratio and two new capital 'buffers' that oblige banks to hold additional capital on top of the minimum capital ratios.

There are also significant regulatory changes in other markets in which we operate. In the US the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) will result in significant changes to the banking and financial markets in the US. Macquarie does not have a banking presence in the US as operations are conducted through non-banking subsidiaries. The Dodd-Frank banking provisions therefore do not apply to Macquarie. However, Macquarie will be required to comply with Dodd-Frank regulations relating to the reporting and central clearing of swaps.

RMG is responsible for coordinating Macquarie's evaluation and response to both current and forthcoming developments and provides updates to the Board on a monthly basis.

Directors' Report

for the financial year ended 31 March 2011

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (Macquarie, MGL, Company), the Directors submit herewith the income statements and statements of cash flows for the year ended 31 March 2011 and the statements of financial position as at 31 March 2011 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, Chairman¹
M.J. Hawker, AM
P.M. Kirby
C.B. Livingstone, AO
J.R. Niland, AC
H.M. Nugent, AO
P.H. Warne

Executive Director

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

¹ Appointed as Chairman on 17 March 2011.

The Directors listed above each held office as a Director of Macquarie throughout the financial year ended 31 March 2011. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Mr D.S. Clarke was the Non-Executive Chairman from the beginning of the financial year until his resignation which was effective on 17 March 2011.

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

Directors' Report

for the financial year ended 31 March 2011

continued

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		Special Board meetings		
	12	Eligible to attend	Attended	Eligible to attend	Attended
D.S. Clarke ¹		11	11	3	2
H.K. McCann		12	11	3	3
N.W. Moore		12	12	3	3
M.J. Hawker		12	12	3	3
P.M. Kirby		12	12	3	3
C.B. Livingstone		12	11	3	3
J.R. Niland		12	12	3	3
H.M. Nugent		12	12	3	3
P.H. Warne		12	12	3	3

¹ Mr Clarke ceased to be a Director on 17 March 2011.

Board Committee meetings

	Board Audit Committee meetings	Board Corporate Governance Committee meetings	Board Nominating Committee meetings	Board Remuneration Committee meetings	Board Risk Committee meetings
	7	5	3	12	4
	Eligible to attend	Eligible to attend	Eligible to attend	Eligible to attend	Eligible to attend
	Attended	Attended	Attended	Attended	Attended
D.S. Clarke ¹	–	–	3	3	3
H.K. McCann	7	5	–	–	4
N.W. Moore	–	–	–	–	4
M.J. Hawker	–	–	–	–	4
P.M. Kirby	7	7	5	–	4
C.B. Livingstone	7	7	5	3	4
J.R. Niland	–	5	5	–	4
H.M. Nugent	–	–	–	3	4
P.H. Warne	7	7	5	–	4
W.R. Sheppard ²	–	–	–	–	4

¹ Mr Clarke ceased to be a Director on 17 March 2011.

² Mr Sheppard is not a Voting Director of Macquarie Group Limited.

Principal activities

The principal activity of the Company during the financial year ended 31 March 2011 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 2011 and 31 March 2010, 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 2011 was \$A956 million (2010: \$A1,050 million).

Dividends and distributions

Subsequent to year end, the Directors have announced a final ordinary dividend of \$A1.00 per share unfranked, in relation to the financial year ended 31 March 2011.

The final ordinary dividend is payable on 4 July 2011.

On 15 December 2010, MGL paid an interim ordinary dividend of \$A0.86 per share unfranked (\$A296 million in aggregate) in respect of the financial year ended 31 March 2011.

On 2 July 2010, MGL paid the final dividend of \$A1.00 per share unfranked (\$A344 million in aggregate) in respect of the financial year ended 31 March 2010.

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

State of affairs

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

Review of operations and financial result

Profit attributable to ordinary equity holders of \$A956 million for the year ended 31 March 2011 decreased nine per cent from \$A1,050 million in the prior year. Net profit for the second half of the year of \$A553 million increased 37 per cent from \$A403 million in the six months to 30 September 2010. Recently acquired businesses, including Sal. Oppenheim, Macquarie Private Wealth Canada and Delaware Investments, contributed to increases in both operating income and operating expenses.

Net operating income of \$A7,644 million for the year ended 31 March 2011 increased 15 per cent from \$A6,638 million in the prior year. The main drivers of this increase were:

- an 18 per cent increase in net interest income to \$A1,275 million for the year ended 31 March 2011 from \$A1,080 million in the prior year driven by an increase in corporate lending volumes, recent acquisitions of leasing portfolios and improved margins
- equity accounted income from investments in associates and joint ventures of \$A179 million for the year ended 31 March 2011, up from a net loss of \$A230 million in the prior year driven by an improvement in the underlying results of investments. In addition, the prior year included equity accounted losses of \$A82 million relating to fees paid by MAp Group, Southern Cross Media Group and Macquarie Infrastructure Group to terminate management agreements with Macquarie, and
- a 21 per cent increase in other operating income to \$A931 million for the year ended 31 March 2011 from \$A768 million in the prior year driven by a 76 per cent increase in net operating lease income from \$A138 million in the prior year to \$A243 million for the year ended 31 March 2011 and a significant increase in dividends/distributions received/receivable on investment securities available for sale from \$A22 million in the prior year to \$A126 million for the year ended 31 March 2011. In addition, there was a significant reduction in write-downs and impairment charges from an expense of \$A686 million for the prior year to a net expense of \$A258 million for the year ended 31 March 2011.

Total operating expenses of \$A6,373 million for the year ended 31 March 2011 increased 19 per cent from \$A5,344 million in the prior year. The increase was largely driven by:

- a 25 per cent increase in employment expenses to \$A3,890 million for the year ended 31 March 2011 from \$A3,101 million in the prior year, which was due to the full year impact of acquisitions that contributed to a 17 per cent increase in average headcount. The increase in employment expenses resulted in a compensation ratio of 47.3 per cent for the year ended 31 March 2011, up from 42.9 per cent in the prior year, and
- a 22 per cent increase in brokerage and commission expenses to \$A785 million from \$A645 million in the prior year mainly due to the full year contribution of Delaware Investments.

Income tax expense for the year ended 31 March 2011 of \$A282 million increased 40 per cent from \$A201 million in the prior year mainly as a result of reduced levels of write-downs and impairment charges. The effective tax rate of 22.8 per cent for the year ended 31 March 2011 increased from 16.1 per cent in the prior year.

Directors' Report

for the financial year ended 31 March 2011

continued

Review of financial position

The Consolidated Entity's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained. Cash and liquid assets increased from \$A22 billion at 31 March 2010 to \$A26 billion at 31 March 2011. Cash and liquid asset holdings represent approximately 30 per cent of the Consolidated Entity's net funded assets.

As an Australian Prudential Regulation Authority (APRA) authorised and regulated NOHC, MGL is required to hold adequate regulatory capital to cover the risks for the whole Macquarie Group, including the Non-Banking Group. Macquarie and APRA have agreed a capital adequacy framework for MGL, based on Macquarie's Board-approved Economic Capital Adequacy Model (ECAM) and APRA's capital standards for ADIs.

MGL's capital adequacy framework requires it to maintain minimum regulatory capital requirements calculated as the sum of the dollar value of:

- The Banking Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions (using prevailing APRA ADI Prudential Standards); and
- The Non-Banking Group capital requirement, calculated using Macquarie's ECAM.

The Consolidated Entity has satisfied its externally imposed capital requirements throughout the year. At 31 March 2011, the Macquarie Banking Group had a Tier 1 Capital Ratio of 10.7 per cent and a Total Capital Ratio of 12.4 per cent. The Consolidated Entity remains well capitalised with \$A3.0 billion of eligible capital in excess of the minimum regulatory capital requirements.

Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2011 not otherwise disclosed in this report.

Likely developments in operations and expected outcomes

Continuing market uncertainty makes forecasting difficult.

The net profit contributions for Macquarie Securities, Macquarie Capital, Fixed Income, Currencies and Commodities and Corporate and Asset Finance for the year ending 31 March 2012 are currently expected to be up on the prior year. The net profit contributions for Macquarie Funds and Banking and Financial Services for the year ending 31 March 2012 are currently expected to be broadly in line with the prior year.

The full year 2012 result for each operating group will vary with market conditions, in particular for Macquarie Capital and Macquarie Securities which are assuming better market conditions. Movements in foreign exchange rates will impact the contribution of each group.

The Group's compensation ratio and effective tax rate are expected to be consistent with historical levels. The continued higher cost of funding is likely to reflect market conditions and high liquidity levels.

Consequently, it is currently expected that the result for the Macquarie Group for the year ending 31 March 2012 will be an improvement on the prior year. However, the final result will be dependent upon market conditions, particularly for Macquarie Capital and Macquarie Securities which are assuming better market conditions. The full year 2012 result also remains subject to a range of other challenges including increased competition across all markets, the cost of a continued conservative approach to funding and capital, and regulation, including the potential for regulatory change.

Over the medium term, Macquarie's businesses are increasingly well positioned to benefit from future growth due to its deep expertise in major markets, growing global market share, strength in diversity, a balance sheet positioned for growth and an effective risk management culture.

Directors' Report – Remuneration Report for the financial year ended 31 March 2011

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Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

Executive summary

Through its remuneration approach, Macquarie's objective is to drive superior shareholder returns over the long term, while managing risk in a prudent fashion. Its aim is to do this by aligning the interests of staff and shareholders, while attracting, motivating and retaining high quality people. The consistency of this approach has served shareholders well over the longer term. The Board considers that, with incremental change, it continues to be the appropriate approach.

Nonetheless, over the past year, Macquarie has faced some remuneration challenges. Regulators in Australia and some overseas jurisdictions have focused on remuneration, causing adjustments to the structure of remuneration. At the same time, competition for staff has intensified. Some peers have sought to rebuild their business after the Global Financial Crisis. Other firms are not constrained by regulator pay guidelines and are able to offer attractive remuneration packages to target staff.

Macquarie has sought to address these twin and conflicting challenges by making further incremental changes to its remuneration structure within its broad overarching remuneration approach. In so doing, the focus continues to be on aligning the interests of shareholders and staff, while attracting and retaining our most valuable asset, namely our staff.

- For some staff, more profit share is being deferred and delivered in Macquarie equity, with less profit share being delivered as cash.
- 'Malus'¹¹ is to be introduced for some staff for FY2012 in line with regulatory requirements. Such an approach is consistent with Macquarie's existing ability to 'clawback' deferred profit share from those staff who leave and breach specific guidelines.
- For some staff, to meet regulatory guidance and market practice, a shift has occurred in the mix between fixed and variable remuneration. Such shifts are most notable in risk and finance staff, as well as in the structure of senior executive remuneration.

Notwithstanding these shifts to increased **fixed remuneration**, the proportion and level of fixed remuneration for senior staff remain relatively low compared to comparable roles in other Australian corporations. The Board of Directors considers this is appropriate because it encourages a performance orientation. In 2011, fixed remuneration for Macquarie's twelve Executive Committee members comprised, on average, 12 per cent of current year total remuneration. The balance of their remuneration remains at risk.

Macquarie remains committed to a **performance-based approach to remuneration** that is aligned with shareholders' interests. This is evidenced by the way the profit share pool is created using the twin measures of net profit after tax (NPAT) and return on equity (ROE), measures which are known to be drivers of returns to shareholders. For a given level of capital employed, total profit share rises or falls with NPAT. Macquarie's total profit share pool increases with performance and no maximum ceiling is imposed. This aligns shareholder and staff interests and provides the strongest incentive to staff to continuously strive to maximise long-term profitability.

Performance-based profit share is allocated to Macquarie's businesses and, in turn, to individuals based on performance. Performance is primarily assessed based on relative contribution to profits while taking into account capital usage and risk management. This results in businesses and individuals being motivated to increase earnings and to use shareholder funds efficiently, consistent with prudent risk-taking. In addition, other qualitative measures are used to assess individual performance. For the Managing Director and Chief Executive Officer (CEO) of Macquarie Group and the Managing Director and CEO of Macquarie Bank, the Non-Executive Directors annually and specifically assess each Managing Director's performance by considering a range of indicators, including risk management, governance and compliance, financial performance measures, strategic initiatives, staff and human resources indicators, reputation management and monitoring, community and social responsibility matters and efforts in respect of diversity. The approach adopted motivates staff to work co-operatively given that their profit share will reflect Macquarie's overall performance, the relative performance of their business and their individual contribution.

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

Profit share is delivered in ways that encourage a longer-term perspective and ensures 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.

¹¹ Malus is an ex-post risk adjustment to deferred unvested remuneration.

For 2011, 70 per cent of the Managing Director and CEO's annual gross profit share allocation is retained, up from 55 per cent in 2010. For Executive Committee members and Designated Executive Directors¹, between 50 and 70 per cent of their profit share is retained; whereas retained profit share for other Executive Directors is between 40 and 70 per cent. The 70 per cent upper limit represents an increased deferral from prior years, reflecting market conditions. After Performance Share Units (PSUs) are taken into account, the effective deferral rate for the Managing Director and CEO is 76 per cent and between 61 and 76 per cent for Executive Committee members. In addition, retention rates for staff below Executive Director have also been increased, dependent on certain thresholds.

Retained profit share for the Managing Director and CEO, other Executive Committee members and Designated Executive Directors is released on a pro-rata basis between years three and seven. In the case of other Executive Directors, it is released on a pro-rata basis between years three and five. Retained amounts are invested in a combination of Macquarie ordinary shares and notionally in Macquarie-managed fund equity dependent on an individual executive's responsibilities. Such an approach also strengthens alignment with Macquarie shareholders and security holders in Macquarie-managed funds.

All Executive Directors are subject to a minimum shareholding requirement which is satisfied through the delivery of equity under the current remuneration arrangements.

PSUs, which are only allocated to the Managing Director and CEO and Executive Committee members, vest in three tranches after two, three and four years, but only if challenging performance hurdles are met.

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

- shares held to satisfy the minimum shareholding requirement
- shares to be delivered under the equity plan, the Macquarie Group Employee Retained Equity Plan (MEREQ), including PSUs
- shares held under the Executive Committee Share Acquisition Plan
- unvested options.

Executives can only trade Macquarie ordinary shares during designated trading windows.

In accordance with the 2009 shareholder approval, a departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy or in certain other limited exceptional circumstances, and is forfeited in stages if a 'disqualifying event' occurs within two years of leaving. For example, the payment of a departing Executive Director's retained profit share will be subject to forfeiture if it is found that the individual has acted in a way that damages Macquarie, including but not limited to action or inaction that leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

From 2012, the Board will have discretion to reduce or eliminate unvested profit share amounts 'Malus' where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, a significant unexpected financial loss or a material financial restatement. This will apply to the Executive Committee, Designated Executive Directors, Code Staff under the FSA Remuneration Code, senior risk and financial control staff and any other staff as determined by the Board Remuneration Committee (BRC).

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

Non-Executive Director fees are set in line with market rates for relevant Australian financial organisations and reflect the time commitment and responsibilities involved within the shareholder approved aggregate limit.

This overall approach to remuneration has over the long haul, contributed to creating value for shareholders.

¹ Executive Directors who are members of Operations Review Committee and others who have a significant management or risk responsibility in the organisation.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

Introduction

Through its remuneration strategy, Macquarie aims to generate superior shareholder value over the long term and to reward staff in line with the outcomes they achieve. This broad strategy has been in place since the inception of Macquarie, evolving over time to ensure the system continues to meet its overriding objectives.

The Board of Directors (the Board) oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Non-Executive Voting Directors. The Board and the Board Remuneration Committee (BRC) annually review the remuneration strategy to encourage the best possible outcomes for Macquarie and its shareholders over the medium to longer term. Following this year's review, the Board's view is that:

While Macquarie's underlying remuneration principles remain unchanged, Macquarie is continuing to enhance its remuneration arrangements to even more strongly align staff and shareholders' interests and to remain in line with or ahead of market practice.

- 1 Macquarie's remuneration framework remains sound and is continuing to deliver against objectives.
- 2 However, some remuneration-related challenges need to be addressed.
- 3 Therefore, Macquarie is enhancing its remuneration arrangements while ensuring its overall remuneration approach remains in place.

These points are discussed in detail in sections one to three of this Remuneration Report.

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

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

- financial information for Macquarie relating to the years ended 31 March 2006 through to 31 March 2011 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial information has also been prepared in accordance with and complies with IFRS as issued by the IASB
- 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
- financial information for Macquarie relating to earlier periods has not been restated, and is, therefore, presented in accordance with the Australian Accounting Standards prevailing at the time.

1 Macquarie's remuneration framework remains sound and is continuing to deliver against objectives

1.1 Macquarie's remuneration framework has undergone incremental changes

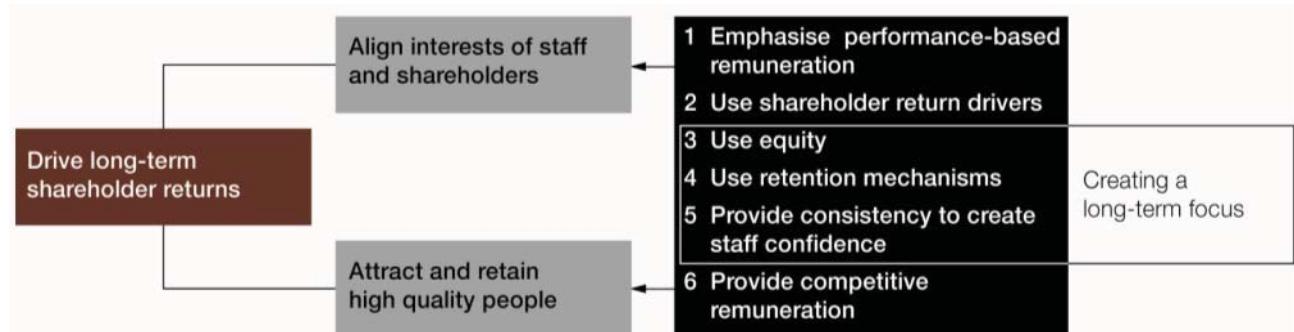
The Board considers that Macquarie's underlying remuneration framework is robust and has contributed to Macquarie's long-term success in growing earnings. That approach, and its consistency over time, has served shareholders well during recent externally difficult times, as well as over the longer term. The Board considers that this continues to be the appropriate approach.

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

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

- emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk (refer section 3.1)
- linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (refer section 3.2)
- using equity to create alignment with shareholder interests (refer section 3.3)
- designing retention mechanisms to encourage a long-term perspective and hence alignment with shareholders (refer section 3.3.1 to 3.3.7)
- using consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded (refer section 3.3)
- ensuring arrangements are competitive on a global basis with Macquarie's international peers (refer discussion in section 2.2 in regards to the competitive environment).

Key elements of the remuneration framework



1.2 Remuneration arrangements continue to play a critical role in delivering results for shareholders

Macquarie's performance is broadly in line with last year reflecting market conditions which have not yet recovered to normal levels. Nonetheless, as shown in the following table, long-term growth is strong although off the highs of some years ago.

Performance over past ten years FY2002–2011

Years ended 31 March	FY11	FY10	FY09	FY08	FY07	FY06	FY05	FY04	FY03	FY02	10 year growth %
Income statement (\$A million)											
NPAT attributable to ordinary owners	956	1,050	871	1,803	1,463	916	812	494	333	250	282
Basic earnings per share (cents per share)	282.5	320.2	309.6	670.6	591.6	400.3	369.6	233.0	164.8	132.8	113
ROE											
Return on average ordinary shareholders' funds (p.a.)	8.8	10.0	9.9	23.7	28.1	26.0	29.8	22.3	18.0	18.7	
Total shareholder returns (TSR)											
Dividend – Interim and Final (cents per share)	186	186	185	345	315	215	161	122	93	93	
Dividend – Special (cents per share)	–	–	–	–	–	–	40	–	50	–	
Share price at 31 March (\$A)	36.60	47.25	27.05	52.82	82.75	64.68	48.03	35.80	24.70	33.26	10
Annual TSR ¹ (%)	(19.0)	79.6	(44.1)	(33.6)	32.6	40.2	39.0	52.8	(23.1)	23.7	
10 Year TSR (%)											102

¹ Throughout this Report, TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

1.2.1 Relative performance has been reasonably strong but under pressure

2011 has been a challenging year with NPAT declining by nine per cent. However, relative to peers, Macquarie has performed reasonably well, both in the short and longer run.

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

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

The same global investment banking peer group as last year has been used throughout the Remuneration Report. They are, in alphabetical order: Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Merrill Lynch (a subsidiary of Bank of America), Morgan Stanley and UBS. Peers are only excluded from the analysis below where relevant information is not 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
- 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
- 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
- the compensation expense to income ratio (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.

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

Change in NPAT relative to peers

One of the measures used to compare relative performance is NPAT. The analysis below shows that over the past year, Macquarie has performed in the middle of its international peers in respect of NPAT over one year and above all but one peer over a 10 year period.

Peer relative Growth in NPAT: FY2001–2011

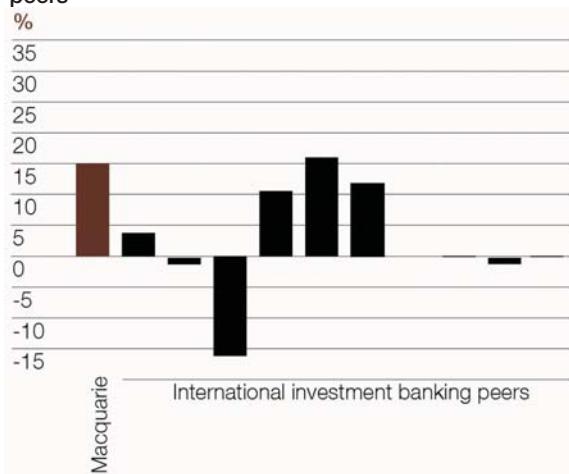
	1 year CAGR %	10 year CAGR ¹ %
Macquarie	(9)	15
Peer	(62)	4
Peer	(24)	(1)
Peer	(54)	(16)
Peer	(38)	11
Peer	(13)	16
Peer	48	12
Peer	234	N/A
Peer	(20)	(0)
Peer	249	(1)
Peer	375	(0)

¹ CAGR over the most recent 10 years, except in cases where 10 years of continuous data is not available for a peer, in which case the longest time period for which continuous data is available for that peer has been used.

Source: Peer underlying data from Bloomberg.

Peers are disclosed under the next chart.

NPAT 10 year compound annual growth rate Macquarie versus international investment banking peers



Peers comprise Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Merrill Lynch (Bank of America subsidiary), Morgan Stanley and UBS. The compound 10 year annual growth rate cannot be calculated where the peer has not continuously reported results over 10 years, i.e. Lazard.

ROE is historically low, reflecting uncertain market conditions as well as a conservative approach to capital and funding

ROE is at an historically low level, reflecting uncertain market conditions as well as Macquarie's approach over recent years to maintain a conservative balance sheet. This has had adverse remuneration consequences because the cost of equity capital has not been met and, therefore, no amount of excess profit over the cost of equity capital has accrued to the profit share pool. However, Macquarie's 10 year average ROE is higher than all of its peers, reflecting that it has been generally less volatile than peers over the same period.

Peer ROE over 10 years 2001–2011¹
Macquarie versus international investment banking peers

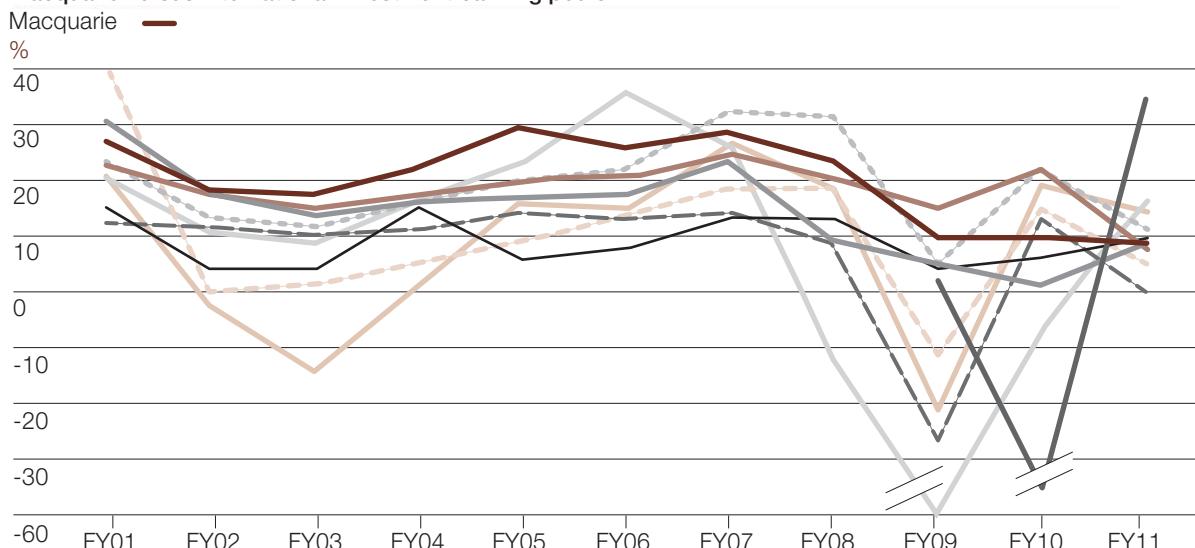
	ROE			
	1 year average %	3 year average %	5 year average %	10 year average %
Macquarie	8.8	9.6	16.1	19.5
Average of Peers	12.2	2.2	9.0	10.7
Peer	7.3	14.8	17.9	18.0
Peer	14.4	4.0	11.2	7.3
Peer	5.4	3.0	9.4	7.5
Peer	11.5	12.7	20.3	18.2
Peer		(7.5)	2.0	7.7
Peer	10.3	6.8	9.3	8.4
Peer	34.7	(2.1)		
Peer	9.0	5.2	9.7	13.1
Peer	17.2	(17.2)	(7.5)	5.8

¹ Peer ROE is included where this information is publicly available. Average of most recent 10 years, except in cases where 10 years of continuous data is not available for a peer, in which case the longest time period for which continuous data is available for that peer has been used.

Peers comprise Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Morgan Stanley and UBS.

Source: Peer underlying data from Bloomberg.

10 Year ROE
Macquarie versus international investment banking peers



Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

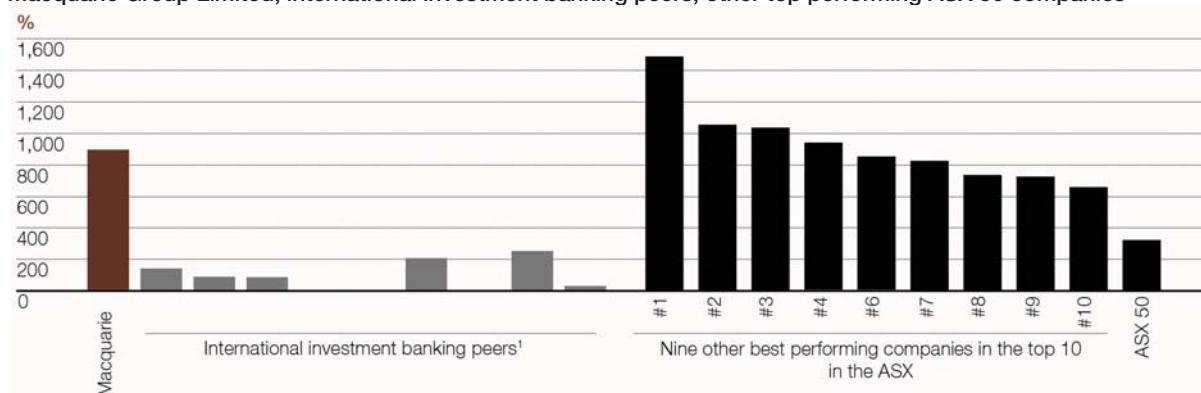
continued

TSR compares favourably

Macquarie's shareholder returns over the long term have been positive and significantly higher than international investment banking peers.

Total shareholder return since July 1996

Macquarie Group Limited, international investment banking peers, other top performing ASX 50 companies



¹ International investment banking peers comprise Barclays, Credit Suisse, Deutsche Bank, JP Morgan Chase, Morgan Stanley and UBS. 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, i.e. Goldman Sachs, Jefferies and Lazard because they were not publicly listed on 29 July 1996.

Macquarie's TSR since listing is currently ranked fifth of all companies that were in the ASX Top 50 at the time that Macquarie Bank Limited (MBL) listed in July 1996, and is significantly higher than the TSRs of the international investment banking peers over the same period.

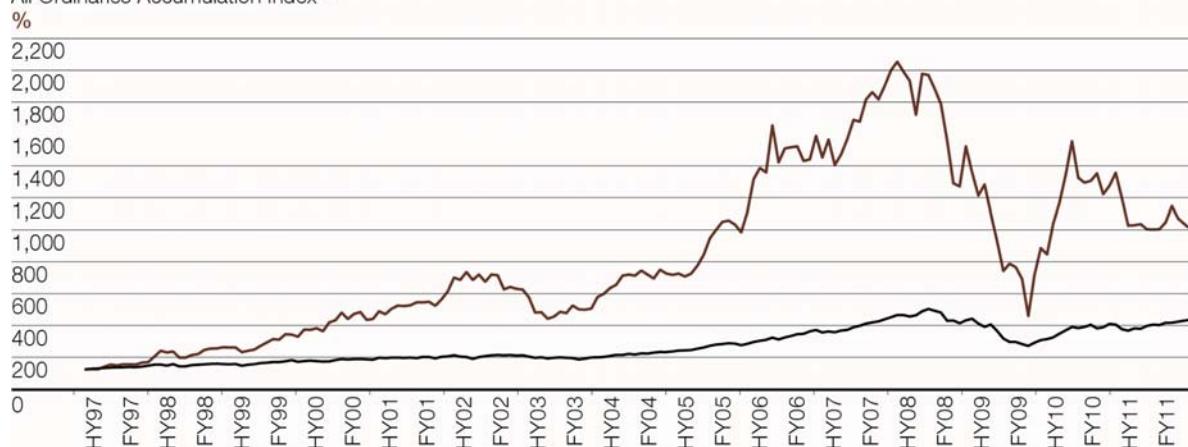
Similarly, Macquarie's shareholder returns continue to outperform the All Ordinaries Accumulation Index since listing.

Macquarie total shareholder return versus the All Ordinaries Accumulation Index

29 July 1996 to 31 March 2011

Macquarie TSR –

All Ordinaries Accumulation Index –



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 Macquarie Group Limited shares on 5 November 2007 onwards.

Compensation expense to income ratio is in line with 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 to broadly review comparative remuneration levels. **It is not, however, the basis on which Macquarie's profit share pool is created.**

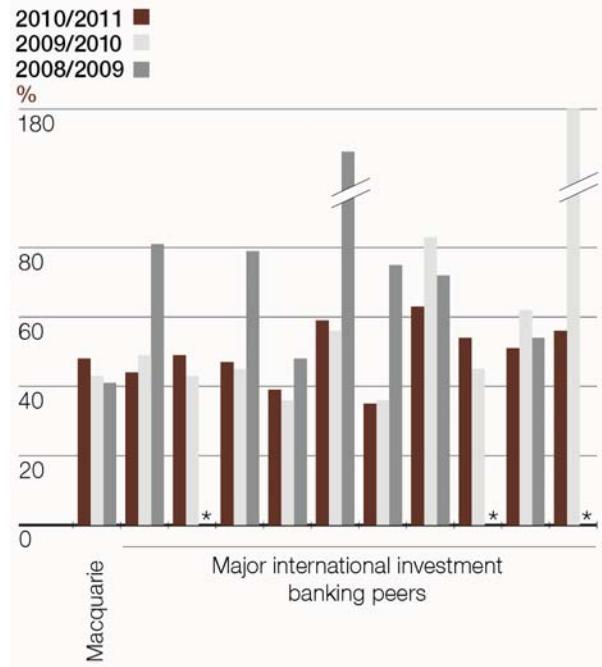
Macquarie's compensation ratio is compared with that of a group of peers in the following chart. Information has been provided for the past three years.

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 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
- differences in the business mix between comparator organisations
- 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
- differences in the level and detail of disclosure amongst peers. 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
- the extent of outsourcing activities
- differences in appetite for risk and assumptions made in regards to risk.

The adoption of different definitions of 'income' by peers in the calculation of the compensation ratio restricts the comparability of peer compensation ratios. In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some peers.

Compensation ratio: 2009–2011¹



¹ Peers comprise Barclays Capital, Credit Suisse (Investment Banking segment), Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase (Investment Banking segment), Lazard, Merrill Lynch, Morgan Stanley and UBS (Investment Banking segment).

* Compensation ratios have been excluded where reported net revenue was negative

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

Macquarie's analysis shows that its overall compensation ratio is in line with its peers for FY2011.

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for the financial year ended 31 March 2011

continued

Compensation is in line with performance

Macquarie has to balance its goal of attracting, motivating and retaining people through remuneration against ensuring staff are paid commensurate with Macquarie's overall performance. This aligns staff and shareholder interests and ensures the generation of shareholder value over the medium and long term.

The analysis below shows that total compensation levels are higher relative to the prior year, largely reflecting the increase in headcount. Average headcount grew from 13,136 to 15,325 over the 12 months to 31 March 2011, and is up from 4,589 in FY2002. FY2011 reflects:

- on a comparable basis, fixed compensation represents a higher proportion of total remuneration expense for FY2011 than for the previous year
- the full year impact, for the first time, of acquisitions of businesses and associated teams in the second half of FY2010. Approximately 1,280 staff joined Macquarie through acquisitions made in the second half of FY2010, mainly in higher cost jurisdictions. In addition, approximately another 200 staff joined Macquarie as a result of acquisitions made during FY2011. Headcount, and therefore compensation, has also increased as a result of Macquarie's ongoing organic growth. During FY2011, approximately 350 new senior hires were recruited specifically for the purpose of developing organic growth opportunities. Through these strategic initiatives Macquarie is building its businesses for the future, with the benefit of their activities yet to be fully realised in income
- base remuneration increases to realign the pay mix for risk and finance staff in order to meet regulatory guidance and market practice. Consistent with the theme of remuneration demonstrating greater risk alignment, regulators have been seeking a more balanced mix between fixed and variable remuneration. Reflecting a structural shift in the market, Executive Committee members have also had base remuneration increases although this has been largely compensation neutral through the adjustment of profit share. This allows greater balance between fixed and variable remuneration and is consistent with regulatory guidance and market practice. By way of background, prior to this year, the current Executive Committee members have not had base remuneration increases since either joining the Executive Committee or for up to 10 years.

Whilst in recent years, Executive Key Management Personnel (Executive KMP) remuneration has moved broadly in line with profitability, it is significantly down on the pre-global financial crisis years demonstrating that Macquarie's remuneration system is working.

The following factors should also be considered when reviewing the analysis below:

- In FY2009 to FY2011, the Non-Executive Directors of the Board have exercised their discretion to change the quantum of the profit share pool to reflect internal and external factors where they have considered it to be in the interests of Macquarie and shareholders to do so. In doing this, the Board considered shareholders' interests, the employment environment and staff retention requirements. It is critical that Macquarie has the flexibility to remain competitive in the global markets in which it operates while having due regard to shareholder interests over the short and medium term
- In FY2011, three new members were appointed to Macquarie's Executive Committee, increasing total Executive KMP to 12 as at 31 March 2011. In addition, FY2011 included the full year impact of one Executive KMP who joined Executive Committee part of the way through FY2010. To reflect the impact of changes in the number of KMP across years, the analysis below represents Executive KMP who were in the Executive Committee for the full year in both FY2010 and FY2011
- Compensation expense includes notional earnings on prior year restricted profit share allocations which are held under the Pre and Post-2009 DPS Plans. These notional earnings or losses reflect the investment performance of the assets in which the prior year retained DPS amounts have been invested. Their inclusion in the compensation expense, particularly for KMP disclosed in the Remuneration Disclosure in Appendix 2 may, therefore, cause distortions when year-on-year remuneration trends are examined. Compensation for comparable Executive KMP included a gain of \$A2.0 million for FY2010 and a gain of \$A5.1 million for FY2011
- Even though Macquarie has ceased offering options in FY2009, the accounting expense in regards to previously granted options continues to be recognised evenly over the vesting period. For FY2011, Macquarie recorded an options expense of \$A44 million (FY2010 \$A109 million). The majority of these options are currently out of the money and are unlikely to vest.

Comparison of performance measures and executive remuneration measures: FY2010 – 2011

		2011	2010	Increase/ (Decrease) %
Performance measures				
NPAT	\$Am	956	1,050	(9)
Basic EPS	cents per share	282.5	320.2	(12)
Executive remuneration measures				
Total Compensation Expense ¹	\$Am	3,612	2,848	27
Average Staff headcount		15,325	13,136	17
Remuneration – Comparable Executive KMP ²	\$Am	43.0	42.5	1
Remuneration excluding earnings on restricted profit share – Comparable Executive KMP	\$Am	37.9	40.5	(6)

¹ Total Employment expenses, which also include other employment expenses such as on-costs, training and staff procurement were \$A3,890m for FY2011 and \$A3,101m for FY2010, an increase of 25 per cent over the year.

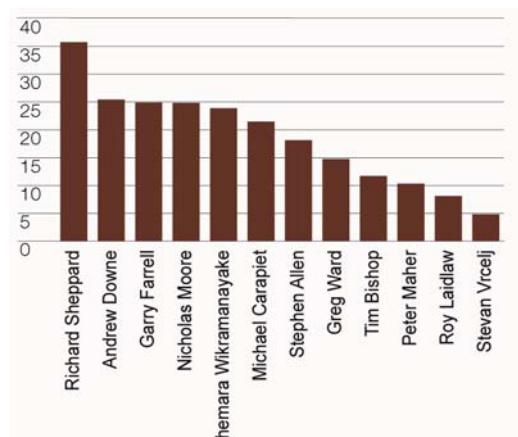
² Represents remuneration for Executive KMP who were on the Executive Committee for the full year in both FY2010 and FY2011.

1.2.2 Staff retention is increasingly challenging

A key goal of Macquarie's remuneration arrangements is to attract, motivate and retain high quality people and ensure they are focused on generating shareholder value by remunerating them commensurate with their performance and Macquarie's overall performance. The Board's view is that currently, Macquarie is attracting and retaining the people it needs to meet its business goals. However, there is growing pressure on staff retention, particularly in some businesses, in response to an even more competitive market than last year. Overall voluntary Director level turnover has increased from 10 per cent in FY2010, to approximately 11 per cent in FY2011, which is still considered a good result in the current competitive market. However, turnover in parts of the Group are much higher than levels seen in the past. This is a challenge that the Board is addressing and is discussed further in section 2.2.

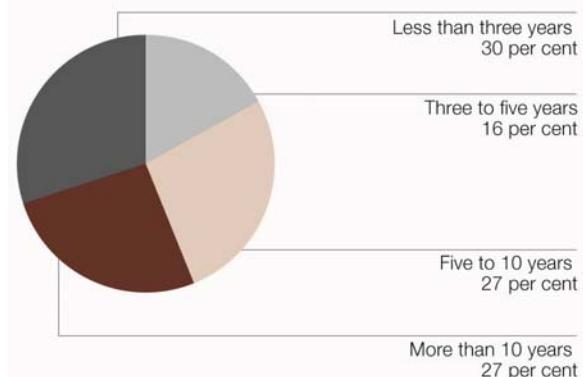
Macquarie continues to have a highly experienced senior management team. The average tenure of Macquarie's Executive Committee is over 18 years.

Tenure of Executive Committee members Number of years at Macquarie



This depth of experience continues outside of the Executive Committee. As at 31 March 2011, 27 per cent of Director level staff have at least 10 years' experience with Macquarie, and a further 27 per cent have between five and 10 years' experience³ with Macquarie:

Directors' tenure as at 31 March 2011



³ Directors in the above chart include all Director-level staff, being Associate Directors, Division Directors and Executive Directors. This measure includes accumulated service at acquired companies, for example ING's Asian Equities business.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

2 However, some remuneration-related challenges need to be addressed

Following on from 2010, there has been a continued focus on executive remuneration both in Australia and across the world. The following table demonstrates the extent of global regulation:

2.1 Continued focus on governance by Governments and regulators

Jurisdiction	Regulator	Details of Review
Global		
Global – Member states	Basel Committee on Banking Supervision	<ul style="list-style-type: none"> – Basel Committee on Banking Supervision issued the Consultative Document – Pillar 3 disclosure requirements for remuneration in December 2010
Australia		
Australia	Australian Government	<ul style="list-style-type: none"> – In April 2010, Australian Government issued its response to the Final Productivity Commission Report on Executive Remuneration in Australia (released December 2009) – An Exposure Draft and amended Exposure Draft of the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Bill 2011 were released in December 2010 and February 2011 respectively – Treasury Discussion Paper on Clawback of Director and Executive Remuneration in the Event of a Material Misstatement was issued in December 2010
Australia	APRA	<ul style="list-style-type: none"> – Implementation of final APRA Prudential Standard APS 510 in April 2010
Australia	Corporations and Markets Advisory Committee (CAMAC)	<ul style="list-style-type: none"> – CAMAC published an Information Paper on Executive Remuneration – the structure and content of executive remuneration arrangements and reporting on executive remuneration arrangements
EMEA		
European Economic Area	European Parliament	<ul style="list-style-type: none"> – The European Parliament approved amendments to the Capital Requirements Directive (CRD) in relation to bankers' remuneration (CRD III)
European Economic Area	European Banking Authority (formerly Committee for European Banking Supervisors (CEBS))	<ul style="list-style-type: none"> – In October 2010, the CEBS published draft guidelines on Remuneration Policies and Practices regarding the remuneration aspects of the CRD III legislative resolution on the implementation of the Basel III agreement on solvency
United Kingdom	Financial Services Authority (FSA)	<ul style="list-style-type: none"> – The FSA published the draft Remuneration Code in August 2010 – In December 2010, the FSA published the Final Remuneration Code (the Code) including prescriptive remuneration and governance principles to implement the CRD III and CEBS guidelines – In April 2011, the FSA published further guidance on the implementation of the Code
Switzerland	Swiss Financial Market Supervisory Authority	<ul style="list-style-type: none"> – Draft circular setting minimum standards on the design, implementation and disclosure of remuneration systems in financial institutions
France	French Government	<ul style="list-style-type: none"> – Parts of the CRD III incorporated into French law and the Ministry of Finance Regulations
Germany	German Government and BaFin	<ul style="list-style-type: none"> – New federal legislation implementing the remuneration provisions in CRD III through the German Remuneration Code
United States		
United States	United States Government	<ul style="list-style-type: none"> – The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Provisions relate to executive compensation and corporate governance – say on executive pay, new compensation committee requirements, clawback, additional compensation disclosures and enhanced corporate governance – The Special Master for Troubled Asset Relief Program (TARP) Executive Compensation announced the conclusion of his review of executive pay, making voluntary proposals recommended for wide adoption – In January 2011, the Securities and Exchange Commission (SEC) adopted final rules implementing Section 951 of the Dodd-Frank Act, relating to shareholder approval and disclosure of executive compensation and 'golden parachute' compensation arrangements
United States	Seven US federal regulatory agencies including the SEC	<ul style="list-style-type: none"> – Draft rules were proposed to implement s956 of the Dodd-Frank Act (prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses)
Asia		
Hong Kong	Hong Kong Monetary Authority	<ul style="list-style-type: none"> – Principles-based guidance on remuneration and governance was announced which follows the Financial Stability Board (FSB) Standards closely
Singapore	Monetary Authority of Singapore	<ul style="list-style-type: none"> – Consultation paper was issued incorporating the FSB principles for sound compensation practices
China	China Banking Regulatory Commission	<ul style="list-style-type: none"> – Supervisory guidelines on compensation of commercial banks was proposed which is largely compliant with FSB principles
Korea	Financial Supervisory Service	<ul style="list-style-type: none"> – Compensation and corporate governance guidelines were issued which are broadly in line with FSB principles
Japan	Financial Services Agency	<ul style="list-style-type: none"> – Indications are that Japan will follow FSB principles

2.2 Strong competition for talent

As noted in section 1.2.2, the competition for key individuals in certain businesses is intense and has increased since 2010, and for parts of the Group, turnover is much higher than levels seen in the past. This has been particularly evident outside Australia where some firms are actively building out parts of their businesses, many of which are not constrained by regulator pay guidelines and can therefore offer highly attractive remuneration packages. As a result, many staff and teams have been aggressively headhunted. This is disruptive for teams and detracts from efforts to develop and grow businesses.

The next section of the Remuneration Report discusses how Macquarie has enhanced its remuneration arrangements while ensuring its overall remuneration approach remains in place.

Directors' Report – Remuneration Report for the financial year ended 31 March 2011 continued

3 Therefore, Macquarie is enhancing its remuneration arrangements while ensuring its overall remuneration approach remains in place

Macquarie has maintained a consistent approach to remuneration, focused on delivering long-term shareholder returns by ensuring continued alignment of the interests of staff and shareholders.

Building on changes to Macquarie's remuneration arrangements approved by shareholders in December 2009, Macquarie has further enhanced its remuneration arrangements to reflect global regulatory trends and to remain competitive, while at the same time further aligning the interests of staff and shareholders. The changes are as follows:

- For this year, more profit share is being deferred and delivered in Macquarie equity, with less profit share being delivered as cash, including:
 - the Managing Director and Chief Executive Officer. 70 per cent of his annual profit share is retained in FY2011, up from 55 per cent in FY2010. When Performance Share Units (PSUs) are taken into account, the Managing Director and Chief Executive Officer effectively has 76 per cent of his performance-based remuneration deferred
 - Executive Directors. A minimum of 40 per cent (50 per cent for Executive Committee members and Designated Executive Directors) up to a maximum of 70 per cent of their annual profit share will be retained, a change from a flat 40 per cent (50 per cent for Executive Committee members and Designated Executive Directors) in FY2010.
- 'Malus'¹ is to be introduced for FY2012 in line with regulatory requirements and to incentivise staff to maintain a long-term focus
- Pay mix shift / realignment for select risk and financial control staff has been undertaken to meet regulatory guidance and market practice.

Full details of Macquarie's remuneration arrangements, including the above changes, are set out in the remainder of this section.

¹ Malus is an ex-post risk adjustment to deferred unvested remuneration.

Link between the remuneration principles and the remuneration arrangements

The following table shows how Macquarie's remuneration arrangements relate to its remuneration principles referred to in section 1.1.

Principle	Features of the remuneration system
1 There is an emphasis on performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk (Refer discussion in section 3.1)	<ul style="list-style-type: none"> – Profit share allocations are highly variable – Performance-based remuneration can comprise a high proportion of total remuneration in the case of superior performance (approximately 93 per cent in the case of the Managing Director and Chief Executive Officer) – Profit share allocations and PSU grants for Executive Committee members provide substantial incentives for superior performance, but low or no participation for less satisfactory performance – The CRO advises the BRC on risk management issues – The CRO and CFO advise the BRC on the risk input into the determination of the profit share pool, such as the cost of equity capital to be used in the profit share pool calculation
2 Rewards are linked to sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (Refer discussion in section 3.2)	<ul style="list-style-type: none"> – The overall profit share pool is determined annually by reference to Macquarie's after-tax profit and its earnings over and above the estimated cost of capital – The allocation of the pool to individual businesses, and in turn to individuals, is based primarily, but not exclusively, on relative contribution to profit, taking into account capital usage and other factors including specific risk factors. Performance looks at a range of factors including risk management, governance and compliance, teamwork, people leadership, people development, and upholding Macquarie's <i>Goals and Values</i> – Earnings per share and ROE are used as performance hurdles for Executive Committee PSUs – ROE is used as the performance hurdle for Executive Director options granted under the old remuneration arrangements
3 Equity is used to provide rewards to create alignment with shareholder interests (Refer discussion in section 3.3)	<ul style="list-style-type: none"> – For Executive Directors, retained profit share is invested in a combination of Macquarie shares and notionally in Macquarie-managed fund equity. The investment mix varies depending on an individual's role – For most other staff, retained profit share is invested in Macquarie shares – PSU grants with performance hurdles are granted to Executive Committee members – Grants of Macquarie shares may be made to staff being hired or promoted – Executive Directors are required to acquire and hold a minimum number of shares calculated based on their profit share. This is satisfied through the current equity arrangements – Employee Share Plan is available to encourage broader staff equity participation
4 Retention mechanisms encourage a long-term perspective and hence alignment with shareholders (Refer discussion in section 3.3.1 to 3.3.7)	<ul style="list-style-type: none"> – In 2011, 50-70 per cent (70 per cent for the Managing Director and Chief Executive Officer) of Executive Committee members annual profit share is retained. When PSUs are taken into consideration, a range of 61 to 76 per cent of performance-based compensation is retained for Executive Committee members (76 per cent for Managing Director and Chief Executive Officer) – For other Executive Directors, a minimum of 40 per cent of annual profit share is retained (50 per cent for Designated Executive Directors¹) up to a maximum of 70 per cent – Retained profit share for Executive Committee members and Designated Executive Directors is released from years three to seven and from years three to five for other Executive Directors – PSUs for Executive Committee members vest from years two to four if performance hurdles are achieved – For staff below Executive Director, between 25 and 70 per cent of annual profit share is retained dependent on certain thresholds, vests and is released from years two to four
5 Arrangements provide consistency over time to ensure staff have the confidence that efforts over multiple years will be rewarded (Refer discussion in section 3.3)	<ul style="list-style-type: none"> – Macquarie's remuneration approach has been in place since it was founded with incremental changes over time as appropriate
6 Arrangements are competitive on a global basis with international peers (Refer discussion in section 2)	<ul style="list-style-type: none"> – The Board reviews the remuneration arrangements at least annually to ensure that they are equitable and competitive – The compensation ratio is used as a general guide to consider the overall competitiveness of remuneration levels but is not the basis on which the profit share pool is created

¹ Executive Directors who are members of Operations Review Committee and others who have a significant management or risk responsibility in the organisation.

Directors' Report – Remuneration Report for the financial year ended 31 March 2011 continued

The primary focus of section 3 is on Executive Director remuneration, in particular, Executive Committee members. However, comments are made in relation to other staff where relevant. Macquarie's Executive Committee has responsibility for the management of Macquarie as delegated by the Macquarie Board, and is made up of a central group comprising the Managing Director and Chief Executive Officer, the Deputy Managing Director, the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the heads of Macquarie's major Operating Groups. The current members of the Executive Committee are identified in Appendix 1.

The remainder of this section discusses the remuneration structure and its individual components in greater detail. Specifically, it describes how the remuneration system:

- **emphasises** performance-based remuneration (refer section 3.1)
- **links** the quantum of an individual's annual performance-based remuneration to the individual's contribution to shareholder return drivers (refer section 3.2)
- **delivers** remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interests which encourages appropriate management of risk (refer section 3.3).

3.1 The remuneration structure continues to emphasise performance-based remuneration

To reflect a structural shift in the market and consistent with regulatory guidance, Executive Committee members received base remuneration increases during the year. For many Executive Committee members, this is the first increase in ten years, and for most, the first increase since joining the Executive Committee. These increases have largely been total compensation neutral through the adjustment downwards of profit share.

In addition, as noted last year, the pay mix for certain risk and finance personnel was reviewed and where appropriate, fixed remuneration was increased to ensure a more appropriate balance between fixed and variable remuneration, which was reflective of regulatory and market guidance.

Despite these increases, the foundation of Macquarie's remuneration structure continues to be an emphasis on performance-based remuneration with an appropriate balance between short and longer-term incentives, as well as aligning remuneration with prudent risk-taking. For front office Executive Directors, fixed remuneration can be relatively low or modest compared with similar roles in non-investment banking organisations. Fixed remuneration generally includes cash salary as well as non-cash benefits, primarily superannuation and nominated benefits, including those provided on a salary sacrifice basis. (Salary sacrifice is calculated on a total cost basis and includes any fringe benefit tax charges related to employee benefits).

The following table summarises FY2011 performance-based remuneration arrangements:

Key Area	Executive Committee (including Managing Director and Chief Executive Officer) and Designated Executive Directors	Other Executive Directors	Staff other than Executive Directors
Amount of profit share retained	50-70 per cent (70 per cent for the Macquarie Group Managing Director and Chief Executive Officer) for Executive Committee members A minimum of 50 per cent up to a maximum of 70 per cent for Designated Executive Directors	A minimum of 40 per cent up to a maximum of 70 per cent	A minimum of 25 per cent up to a maximum of 70 per cent dependent on certain thresholds
How retained profit share is invested	Invested in a combination of Macquarie shares and Macquarie-managed fund equity notionally invested Investment mix will vary depending on an individual's role	Invested in a combination of Macquarie shares and Macquarie-managed fund equity notionally invested Investment mix will vary depending on an individual's role	Invested in Macquarie shares ¹
Vesting and release of retained profit share	All retained amounts vest and are released from three to seven years after the year retained (see also forfeiture below)	All retained amounts vest and are released from three to five years after the year retained (see also forfeiture below)	All retained amounts vest and are released from two to four years after the year retained
Forfeiture of retained profit share while employed²	Board discretion to reduce or eliminate unvested profit share amounts (Malus) in certain circumstances	Board discretion to apply Malus to certain Directors, as identified by the BRC	Board discretion to apply Malus to certain staff, as identified by the BRC
Forfeiture of retained profit share on leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a 'disqualifying event' occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a 'disqualifying event' occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances
PSUs	Granted to Executive Committee members only, which vest over two to four years	N/A	N/A
Minimum Shareholding Requirement	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last 10 years (five years for Designated Executive Directors) in Macquarie shares (which is satisfied by the above requirements)	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last five years in Macquarie shares (which is satisfied by the above requirements)	N/A

¹ Invested in a combination of Macquarie shares and Macquarie-managed fund equity for a select group of directors whose primary role relates to the management of the funds business.

² Malus arrangements will take effect from 2012 in respect of profit share awards for the year ended 31 March 2012 and onwards.

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3.2 Remuneration is linked to the drivers of shareholder returns

For most Executive Directors, the largest component of their remuneration is delivered as an annual profit share allocation, based on their performance over the year. Macquarie's approach to measuring performance for the purpose of determining annual profit share is to utilise financial performance measures which are known to be drivers of long-term shareholder returns. They are NPAT and ROE.

NPAT and ROE were selected as the most appropriate performance measures for the following reasons:

- they are correlated over time with total shareholder returns
- they provide an appropriate incentive because they are elements of performance over which the executives can exercise considerable control. TSR, on the other hand, is influenced by many external factors over which executives have limited control. Moreover, regulators do not support the use of that measure
- both measures can be substantiated using information that is disclosed in audited financial accounts, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff.

These two drivers motivate staff to expand existing businesses and establish promising new activities. The use of ROE to measure excess returns – ROE relative to the cost of equity capital – creates a particularly strong incentive for staff to ensure that capital is used efficiently, while having regard to risk. Therefore, the use of these two measures, in combination, results in appropriate outcomes for shareholders.

Both measures are also enshrined in the performance hurdles applicable on PSUs for Executive Committee members (refer section 3.3.11.3).

Notwithstanding these factors, other qualitative measures are used in assessing performance.

Overview of profit share arrangements

The profit share arrangements are designed to encourage superior performance by motivating executives to focus on maximising earnings and ROE, while having appropriate regard for risk, thereby driving long-term shareholder returns. A Macquarie-wide profit sharing pool is created at the corporate level which is the basis of creating substantial incentives for superior profitability but low or no participation for less satisfactory performance.

Determination of the profit share pool

The size of the pool is determined annually by reference to Macquarie's after-tax profit and its earnings over and above the estimated cost of capital. A portion of Macquarie's profit earned accrues to the staff 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 methodology used to calculate the profit share pool is reviewed at least annually by the BRC and the Non-Executive Directors of the Board, including:

- the proportion of after-tax profit and the proportion of earnings in excess of Macquarie's cost of equity capital used to calculate the pool
- the cost of equity capital and the tax rate.

As part of this review, the CRO and the CFO advise the BRC on the risk input into the calculation of the profit share pool.

The Non-Executive Directors of the Board have discretions:

- to change the quantum of the pool to reflect internal and external factors if deemed in the interests of Macquarie and shareholders. In doing this, the Board considers shareholders' interests, the employment environment and staff retention requirements. It is critical that Macquarie has the flexibility to remain competitive in the global markets in which it operates while having due regard to shareholder interests over the short and medium term
- to defer the payment of profit share amounts to a subsequent year at a Macquarie business or individual level where it is in the interests of Macquarie and shareholders to do so.

This year, the Non-Executive Directors of the Board have exercised their discretion in relation to changing the quantum of the pool. They have also done so in prior years.

Allocation of the profit share pool

Allocation of the pool to businesses is based on performance, primarily, but not exclusively, reflecting relative contributions to profit (not revenue) while taking into account capital usage. It also takes into account other risk factors such as operational incidents, the risk profiles of the businesses and compliance with regulatory requirements as identified by the CRO to the BRC.

An individual's profit share allocation is based on performance, measured primarily through the performance appraisal policy that requires staff have at least one formal appraisal session with their manager each year.

Performance criteria vary according to an individual's role. Performance is linked where possible to outcomes that contribute directly to NPAT and excess ROE. Capital usage is important as it factors in the level of risk associated with the income derived.

Performance also takes into consideration how business is done. Superior performance looks at a range of indicators that go beyond financial performance and include risk management, governance and compliance, teamwork, people leadership, people development, and upholding Macquarie's *Goals and Values*.

The CRO advises the BRC on risk management issues including the return on economic capital by business, the relationship between profitability and risk (as measured by economic capital usage), losses by divisions and by risk type and the contingent risks associated with large transactions completed during the current financial year.

The performance of staff whose role is not linked to profit contribution is measured according to criteria appropriate to their position. Staff working in support areas may, for example, be rewarded on the basis of their contribution to Macquarie's financial reporting, risk management processes or information systems.

The Board and management seek to ensure that remuneration for risk and financial control personnel, including the CFO and the CRO, is structured so that it does not compromise the independence of these personnel in carrying out their functions and is determined in a way that maintains Macquarie's robust risk management framework. For instance, an evaluation of their performance occurs independently of the business with which they are associated.

Profit share allocations for risk and financial control personnel are reflective of their individual performance, including the quality and integrity of the control functions. The allocations to these staff are not directly linked to the profit of Macquarie or the businesses in which they operate.

The BRC reviews the allocation of the profit share pool to the central Risk Management Group, the central Finance function and Group Legal. It also annually recommends to the Board remuneration for all risk management and finance staff as a total category, in addition to specific recommendations for the CFO, CRO, General Counsel and other Executive Directors with a risk management or financial control role.

For staff with specific fund responsibilities, the performance of the relevant funds is important in determining that individual's profit share allocation. For example, in the case of the Macquarie Funds business, the following factors are relevant:

- in evaluating each executive's contribution to determine their individual profit share allocation, the performance of the fund or funds for which they are responsible, and in particular, the underlying factors influencing fund performance such as management and leadership, the operational performance of the underlying assets, and effective capital management
- in the case of Executive Directors with fund responsibilities (in particular Fund Chief Executive Officers), retained profit share allocated to the Post-2009 DPS Plan is notionally invested in the relevant funds, as discussed in section 3.3.2, giving these individuals a further ongoing incentive to seek to grow the value of the fund.

Arrangements are also in place to ensure that performance-based remuneration is appropriately allocated to the individuals who contributed to particular transactions. Therefore, businesses may further recognise cross-divisional contributions by allocating part of their profit share pool to individuals in other areas of Macquarie who have contributed strongly to their success.

In summary, profit share allocations to each individual generally reflect:

- Macquarie-wide performance – which determines the size of the overall profit share pool
- the performance of their business – which determines the profit share pool allocated to that business
- their individual performance – which determines their own share of the profit share pool for that business.

Profit share allocations to individuals are subject to retention arrangements as discussed in section 3.3.1.

Commentary on allocation to the Managing Director and Chief Executive Officer of Macquarie and the Managing Director and Chief Executive Officer of Macquarie Bank

In approving the profit share and PSU grants to the Managing Director and Chief Executive Officer of Macquarie Group and the Managing Director and Chief Executive Officer of Macquarie Bank, the Non-Executive Directors annually and specifically assess each Managing Director's performance by considering a range of indicators, including risk management, governance and compliance, financial performance measures, strategic initiatives, staff and human resources indicators, reputation management and monitoring, community and social responsibility matters and efforts in respect of diversity.

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3.3 Direct long-term alignment with shareholder interests is emphasised

The remuneration arrangements are also structured to deliver remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interests through:

- retention arrangements which encourage long-term commitment to Macquarie, and therefore, to shareholders
- the use of equity-based remuneration.

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

A tailored approach is adopted to ensure that retention arrangements and equity-based remuneration are appropriate given the seniority of the individual and their ability to influence results.

Some overarching rules apply to equity-based remuneration:

- the following cannot be hedged:
 - shares held to satisfy the minimum shareholding requirement
 - awards under the MERE
 - shares held under the Executive Committee Share Acquisition Plan
 - unvested options.
- all shares and options must be dealt with in accordance with Macquarie's *Trading Policy*, which is available on Macquarie's website, including that trading must be conducted within designated trading windows.

All Executive Committee members and Voting Directors are required at least annually to disclose to Macquarie their financing arrangements relating to their Macquarie securities.

More generally, long-term alignment is encouraged through the emphasis on a degree of consistency over time in remuneration arrangements. Whilst the profit share pool is based upon NPAT for the year, these profits may include results from an initiative that has taken many years to come to fruition. Because the remuneration system is outcomes driven, profit share allocations for transactions and business development activities that are 'in progress', are low.

Staff must, therefore, have confidence that when a transaction is completed – potentially some years later – the remuneration system will recognise successful outcomes in the way the staff member anticipated at the outset of the transaction. This requires broad consistency over time.

3.3.1 Profit share arrangements – delivery of profit share

A percentage of each employee's annual gross profit share allocation is retained by Macquarie (retained profit share).

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 is because:

- regulatory and remuneration trends continue to evolve and change
- Macquarie must have the ability to meet regulatory requirements
- Macquarie must have the flexibility to remain competitive in the global markets in which it operates. The global remuneration environment is a very important consideration when determining remuneration structures.

During the year, the Board has exercised discretion and increased retention rates. In doing this, the Board and the BRC have considered peer organisations' retention rates, the intense competition for certain talented staff, as well as regulatory guidelines. As a result of these revised retention arrangements, less profit share is delivered as cash and more profit share is deferred and delivered in equity, creating an increased alignment with shareholders and ensuring ongoing staff retention.

The percentage is set for Executive Directors according to their role:

Executive Directors

Role	2008 %	2009 %	2010 %	2011 %
Managing Director and Chief Executive Officer ¹	30	55	55	70
Executive Committee Members	30	50	50	50-70
Designated Executive Directors	20	50	50	50-70
Other Executive Directors	20	50	40	40-70

¹ Refers to the percentage retained for Nicholas Moore in 2008 in his role as Group Head of Macquarie Capital.

For staff below Executive Director, the revised retention arrangements reflect increasing retention percentages applying to higher levels of profit share allocations, as follows:

Staff below Executive Director

Profit Share Allocation	Percentage retained – 2011 ¹
\$A0 – \$A50,000	Nil
\$A50,001 – \$A200,000	25%
\$A200,001 – \$A500,000	35%
Above \$A500,000	40%

¹ For certain staff, the percentage of profit share allocations that is retained is higher, up to a maximum of 70 per cent.

If the calculated retention is less than \$A10,000, no amount will be retained.

The Board also has discretion to change the percentage of profit share allocation retained to meet exceptional circumstances that may arise when a staff member moves between jurisdictions. The Board would consider changing the retention level where local laws impact the application of the transitional arrangements.² These adjustments are to ensure that Executive Directors are in a similar situation and not disadvantaged due to local restrictions, to the extent possible.

3.3.2 Investment of retained profit share

Executive Director retained profit share is invested in a combination of Macquarie shares under the equity plan (MEREP), and Macquarie-managed fund equity notionally invested under the Post-2009 DPS Plan. For most other staff, retained profit share is invested in Macquarie shares under the MEREP. The following table shows the current percentage allocation of retained profit share that is invested in the Post-2009 DPS Plan and the MEREP, depending on the staff member's role:

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

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

Both the MEREP and the DPS Plan are fundamental tools in Macquarie's retention and alignment 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 for Macquarie and the Macquarie-managed funds.

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

² Under the remuneration arrangements approved by shareholders in December 2009, Executive Directors were given the choice of leaving their pre-2009 retained profit share in the pre-2009 DPS Plan, or move some of these amounts into the new arrangements (Transitioned Amounts).

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Post-2009 DPS Plan

The Post-2009 DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. These 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.

The notional portfolio is set for each Executive Director according to their role, as determined by the BRC. The BRC makes an annual determination as to how each Executive Director's retained profit share that is invested in Macquarie-managed fund equity (retained DPS in the DPS Plan) for that year should be notionally invested by Macquarie. The Executive Director has no input into that decision or its timing. The following general principles are used in making this decision:

- retained DPS in the DPS Plan for Executive Directors who are involved in the management of a particular fund (e.g. the Chief Executive Officer of a fund), will be 100 per cent notionally invested in that particular fund
- retained DPS in the DPS Plan for Executive Directors who are involved more generally in the management of one of Macquarie's funds businesses, including certain Operating Group Heads, will be notionally invested in a portfolio of funds managed by that particular business
- retained DPS in the DPS Plan for other Executive Committee members will be notionally invested in a general portfolio of Macquarie-managed fund equity
- retained DPS in the DPS Plan for all other Executive Directors will be notionally invested in a general portfolio of Macquarie-managed fund equity.

MEREP

Retained profit share invested in Macquarie shares is held under the equity plan, the MEREP. 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). An RSU comprises a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the 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. RSUs are the primary form of award under the MEREP. Where legal or tax rules make the grant of RSUs impractical, due to different tax rules for employee equity and different securities laws, equity grants will be in the form of:

- shares held by the staff member subject to restrictions (Restricted Shares). A Restricted Share comprises a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on those Restricted Shares and to vote those Restricted Shares; or
- 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. Macquarie 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 provide for cash payments in lieu of dividends paid on Macquarie 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 Macquarie in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders generally of Macquarie shares do not receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as provided to holders of Restricted Shares or RSUs. However, holders of DSUs have no voting rights as to any underlying Macquarie share.

These different types of equity grants enable Macquarie through the MEREP to offer substantially similar economic benefits to staff across multiple jurisdictions.

3.3.3 Income on invested retained profit share

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.

Employees with retained profit share invested in the MEREP are entitled to receive either dividends or cash payments or additional equity in lieu of dividends paid on Macquarie shares.

3.3.4 Release of retained profit share – normal vesting

The vesting period is established for each retained profit share allocation by the BRC, according to the prevailing market conditions and having regard to regulatory and remuneration trends at the time of allocation (refer to section 3.3.1 above for further commentary). The BRC established the following release schedule for retained profit share invested in the Post-2009 DPS Plan and the MEREP:

Role	Release schedule
Executive Committee Members (including Managing Director and Chief Executive Officer), Designated Executive Directors	one-fifth in each of years 3–7
Other Executive Directors	one-third in each of years 3–5
Staff other than Executive Directors	one-third in each of years 2–4

For each year's allocation, once the vesting period has been determined it will remain fixed for that allocation. Retained profit share is released immediately after it vests.

3.3.5 Forfeiture of retained profit share whilst employed – 'Malus'

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

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

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

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

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

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

3.3.6 Early vesting and release of retained profit share

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

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

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

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

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

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

Under the current remuneration arrangements, in the year to 31 March 2011, discretion has been exercised in relation to six executives who transferred employment for the following reasons:

- internalisation of the management of the Fund for which they provided services
- sale of some or part of the business for which they provided services
- transfer of employment to the joint venture for which they provided services.

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3.3.7 Disqualifying events

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

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

If an Executive Director leaves Macquarie and the discretion to release unvested retained amounts is exercised as described in section 3.3.6 'Early vesting and release of retained profit share', the release will occur over the period from six months to two years after the Executive Director leaves. Different disqualifying event provisions will apply at the six month, one year and two year timeframes as follows:

- **retained profit share from all but the last two years** – released on the expiry of six months following the end of employment (the 'First Period') provided the Executive Committee has determined that none of the disqualifying events (a), (b), (c), (d) and (e) set out above occurred during the First Period
- **retained profit share from the second year prior to the end of employment** – released on the expiry of a further six months following the end of the First Period (the 'Second Period') provided the Executive Committee has determined that no disqualifying event occurred during the First Period and disqualifying events (a), (b), (d) and (e) set out above have not occurred during the Second Period
- **retained profit share from the year prior to the end of employment** – released on the expiry of a further 12 months following the end of the Second Period (the 'Third Period') provided the Executive Committee has determined that no disqualifying event occurred during the First Period, disqualifying events (a), (b), (d) and (e) set out above have not occurred during the Second Period and disqualifying events (a), (b) and (e) set out above have not occurred during the Third Period.

3.3.8 Tax events

The Board or its delegate has discretion to change the terms of the MEREP awards, including the vesting date, to avoid situations of undue hardship or to maintain business efficacy. The Board, the BRC or the Executive Committee under delegation from the BRC, may exercise discretion to early release MEREP awards where an employee terminates employment and, as a result, this triggers a tax liability in respect of any unvested equity award. Where this occurs, the employee has not received the underlying shares and may not receive the full number of shares on which they are being taxed for a considerable time due to continued vesting conditions and other restrictions beyond cessation of employment (for example, the two year clawback period described in section 3.3.7).

The number of shares released would be limited to the number with an aggregate value equal to the tax liability (see below). The employee would be required contractually to agree to repay an amount equal to the value of the shares released in the event that the BRC deem a disqualifying event has occurred. Approval for early release of Macquarie shares under these circumstances for Executive Committee members will reside with the BRC.

Where an employee terminates employment, and a tax liability arises in respect of retained MEREP awards, Executive Committee and/or the BRC will determine whether to allow early release after, considering, amongst other things, the possibility of the operation of the forfeiture rules. For example, if there is a high risk of forfeiture, early release would not be made.

If a decision to allow early release is made, sufficient shares will be released to the employee to fund the estimated tax liability. Subject to the *Trading Policy*, the employee is then able to sell these shares and use the cash to fund the tax liability. The remaining MEREP awards will be held within the MEREP until the post-termination retention period ends.

3.3.9 Minimum shareholding requirement for Executive Directors

The retention arrangements also impose on Executive Directors a requirement to hold Macquarie ordinary shares equivalent to the aggregate of five per cent (being the deemed after-tax equivalent of 10 per cent) of their annual gross DPS allocation for the past five years (for the wider Executive Director population) or 10 years (for Executive Committee members). These shares cannot be hedged.

This requirement remains but is satisfied through the equity retention arrangements.

Macquarie does not seek retention beyond this period because it considers that executives who are unable to diversify their personal portfolio may seek to leave, thereby creating an unintended consequence.

3.3.10 Staff share plans encourage broader staff equity participation – Employee share plan

Macquarie has the Macquarie Group Employee Share Plan (ESP) that encourages share ownership by employees. The ESP substantially replicates the terms of the Macquarie Bank Employee Share Plan which was approved by Macquarie Bank Limited's shareholders in 1997. Eligible employees in Australia are offered up to \$A1,000 worth of Macquarie ordinary shares funded from pre-tax available profit share.

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

The number of shares each participant receives is \$A1,000 divided by the weighted average price at which Macquarie Group Limited's shares are traded on the ASX on the seven days up to and including the date of allotment, rounded down to the nearest whole share.

In 2011, 1,347 eligible Australian employees elected to participate in the ESP (2010: 1,635).

3.3.11 Performance share units (PSUs)

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

3.3.11.1 Determination and allocation of the PSUs

The Board approves the number of PSUs to be allocated to each Executive Committee member each year as part of the annual remuneration review process. This determination has regard to Macquarie's overall performance, the extent to which the Executive Committee members have fulfilled their roles, and the long term value delivered to shareholders. The allocation to individual executives is broadly in the same manner as annual profit share allocations i.e. it is performance based.

3.3.11.2 Vesting Schedule

The PSUs vest in three equal tranches after two, three and four years from the deemed vesting commencement date (typically 1 July in the year of grant), giving an average vesting period of three years. As a general rule, unvested PSUs will lapse on termination. However, the Board or the BRC has the authority to accelerate the vesting of PSUs. The Board or the BRC may consider exercising this authority where, for example, a staff member dies, is totally and permanently disabled, gives notice of their intention to enter into genuine retirement or a staff member's employment ends on the grounds of redundancy, illness or in other limited exceptional circumstances, such as hardship or where business efficacy justifies exercising the discretion.

3.3.11.3 Performance hurdles for Executive Committee PSUs

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

The BRC periodically reviews the performance hurdles, including the reference group, and has discretion to change the performance hurdles in line with regulatory and remuneration trends.

Description of performance hurdles:

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

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

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

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

Rationale for selection of performance hurdles:

- ROE and EPS are considered appropriate measures of performance as they are regarded as the drivers of longer term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining annual profit share
- EPS provides closer alignment with the interests of shareholders as it is a measure with which they are directly concerned. In addition, such a measure is particularly appropriate for the Executive Committee who are at a level within Macquarie where they can affect its achievement without being highly impacted by factors, including market sentiment, over which other executives have reduced control
- ROE and EPS can be substantiated using information that is disclosed in audited financial statements, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff

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- the use of a sliding vesting scale diversifies the risk of not achieving the hurdle for executives, provides rewards proportional to performance for shareholders and replaces the all-or-nothing test which some have argued could, in the current climate, promote excessive risk taking. Sliding vesting scales are also more widely used and supported by governance agencies
- use of a reference group of significant Australian financial companies and international peers provides an appropriate reference. This also recognises that, following the significant changes in global financial markets, regulated financial institutions will likely face increased regulatory requirements, which other companies will not. The inclusion of international peers recognises the extent of Macquarie's internationalisation. At 31 March 2011, over half of Macquarie's income and over half of Macquarie's staff were offshore. Also, international ownership of Macquarie's shares remains significant with non-Australian ownership averaging approximately 34 per cent over the three years to 31 March 2011
- the approach is consistent with that advocated by APRA in not using TSR as a measure.

Performance level required to meet hurdles:

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

5 year EPS CAGR (per cent per annum)¹

	S&P/ASX 100 ex Resources	S&P/ASX Banks	S&P/ASX Financials ex Property Trusts	MSCI Financials
Mean	4.7	5.9	3.0	(0.3)
75th percentile	14.0	8.9	8.9	8.5

¹ Data provided by Macquarie Research Equities as at 31 March 2011. MSCI refers to the MSCI All Countries World Index.

Macquarie's EPS CAGR over the same five year period was (6.7) per cent per annum and since listing in 1996 has been 10.8 per cent per annum.

3.3.12 Options, while discontinued, remain outstanding

Options were previously granted to approximately the most senior 20 per cent of staff based on performance and promotion. As previously noted, Macquarie has ceased offering options.

This section explains the options arrangements that were in place for previous option grants, some of which are currently unvested. These arrangements are no longer in place. However, background information is provided to assist in understanding the relevant option disclosures in Appendix 2 and Appendix 3. Final tranches will vest in October 2013.

3.3.12.1 General terms of option arrangements

The Plan and key option terms

Plan	Macquarie Group Employee Share Option Plan (MGESOP)
History	Macquarie has had an employee option plan in place since 1995, with only minor amendments to the Plan rules being made over that time.
Eligible staff	Associate Director, Division Director and Executive Director
Options over	Fully paid unissued ordinary shares in Macquarie Group Limited
Term of options	Five years
Consideration	Nil
Exercise price	Set at the prevailing market price: the exercise price will generally be the weighted average price of shares traded on ASX during one week up to and including the date of grant of the options (adjusted for cum-dividend trading and excluding certain special trades)
Vesting schedule	Options vest in three tranches after two, three and four years. However, vested options can only be exercised by Executive Directors if the relevant performance condition is also satisfied
Hedging	Staff are not permitted to hedge unvested options.

3.3.12.2 Performance hurdles for Executive Committee options

Description of performance hurdles for Executive Committee options

Applicability	Performance conditions are imposed as summarised below on options granted to Executive Committee members
Description of performance hurdle	The performance hurdle requires that Macquarie's three year average ROE exceeds the three year average ROE of companies in the S&P/ASX 100 Index at the 65th percentile. This hurdle operates in addition to both the vesting rules and the embedded share price hurdle
Application of retesting	No retesting for option grants has applied since June 2006. The performance hurdle is tested once only (at time of vesting)
Calculation methodology	In assessing whether Macquarie's performance is above these hurdles, Macquarie obtains data from external sources and, where required, supplements this with data published by the individual companies. The percentile ranking of Macquarie, based on the three year average annual ROE against all companies in the applicable reference index, is determined quarterly.

The majority of unvested options are currently out of the money and are unlikely to vest.

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3.3.13 No special contractual termination payments

The following table summarises key features of the employment contracts for Executive Committee members including the Managing Director and Chief Executive Officer:

Length of contract	Permanent open ended
Remuneration review period	1 April to 31 March annually
Directors' profit share participation	All Executive Directors are eligible to be considered for a DPS allocation, referred to in section 3.3.1, which ensures that a large part of their remuneration is 'at risk'. The DPS terms are set out in the Macquarie Group Executive Directors' Remuneration Booklet (also known as the Grey Book). A departing Executive Director's retained DPS will only be released early on a discretionary basis in the case of genuine retirement, redundancy and certain other limited exceptional circumstances and will be subject to forfeiture provisions. Upon retirement from Macquarie, Executive Directors may be entitled to the vested retained DPS held under the Pre-2009 DPS Plan scheme provided that it is determined that no disqualifying events have occurred
Option participation	Executive Directors are no longer eligible for options (five year options over ordinary unissued Macquarie ordinary shares). Subject to discretions able to be exercised by the Board or its delegates, on termination from Macquarie, all Executive Directors continue to remain entitled to retain options which are vested at the termination date
PSU participation	Executive Committee are eligible to receive PSUs which are DSUs with performance hurdles and are a replacement for options grants
Termination of employment	Termination of employment by Macquarie or the Executive Director requires four weeks notice. ¹ Depending on the jurisdiction, Executive Directors may also receive a payment in lieu of any accrued but untaken leave and entitlements. Aside from notice (for which a payment or part payment may be made in lieu of being required to work the notice subject to legislative restrictions on termination benefits), no other solely contractual termination benefits exist

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 termination.

Subject to variations arising from local employment, transmission of business and other laws in the jurisdictions in which Macquarie operates, these contractual arrangements generally apply to all staff at Executive Director level.

Executive Directors who chose to keep some or all pre-2009 profit share in the Pre-2009 DPS Plan and leave Macquarie are eligible to receive the vested portion (subject to there being no disqualifying events in the period of up to six months following their departure) under the Pre-2009 DPS Plan. Executive Directors who leave Macquarie may also retain any vested but unexercised options (which will lapse if they are not exercised in the six months following departure).

3.4 Strong governance has been exercised

Effective governance is central to Macquarie's remuneration strategy and approach. The Board aims to ensure that Macquarie's remuneration system is sound in the following ways:

- strong Board and Board Remuneration Committee (BRC) oversight
- assessment of risk as part of the profit share allocation process
- independent remuneration review.

These key elements of Macquarie's approach are described below.

3.4.1 Strong Board oversight exists to ensure sound overall remuneration governance

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

The BRC currently comprises three Independent Non-Executive Directors:

Helen Nugent	BRC Chairman
John Niland	BRC Member
Peter Warne	BRC 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. All members of the BRC are also members of the Board Risk Committee, with Mr Warne being the Chairman since 27 August 2009. 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 held a significant number of additional meetings this year in order to address the various remuneration issues arising from the changing remuneration environment. The BRC met 12 times over the last financial year. Attendance at the meetings is set out in the Directors' Report.

The Board pays serious, sustained attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives.

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

Executive Remuneration Policy and Framework Recommendations

The Macquarie Board is responsible for approving the remuneration policy on the recommendation of the BRC.

This includes the following:

- assessing the effectiveness of the remuneration policy and compliance with legal and regulatory requirements
- material changes to the remuneration policy, including remuneration structure, retention and termination policies for all staff
- material changes to the recruitment policies and procedures for Macquarie's senior management team (Executive Committee and other Operating Group Heads)
- appropriate levels of delegated responsibility from Macquarie's Board to management for remuneration-related policies and practice decisions, and
- the continued application of the profit share methodology and any adjustments.

The BRC has the authority to review and approve the following on behalf of the Macquarie Board:

- changes to remuneration, recruitment, retention and termination policies and procedures not requiring Board approval
- material changes to superannuation/pension arrangements
- the percentage of Executive Directors' retained profit share allocated to Macquarie shares and Macquarie-managed fund equity, and
- the specific notional portfolio allocations of retained profit share amounts for individual Executive Directors.

The BRC also has the authority to monitor the implementation of the executive remuneration policy, including an annual review of compliance with the Executive Director minimum shareholding requirements.

Executive Remuneration Recommendations

The Boards of Macquarie and Macquarie Bank, as appropriate, approve the following on the recommendation of the BRC:

- all individual remuneration and profit share recommendations for members of the respective Executive Committees and other Executive Voting Directors (including the Managing Director), Designated Executive Directors and other persons whose activities may, in the BRC's opinion, affect the financial soundness of Macquarie and MBL (Specific Remuneration Recommendations)
- all individual PSU grants to members of the respective Executive Committees, with the proviso that grants to Executive Voting Directors (including the Managing Director) must be approved by shareholders at the Annual General Meeting
- other remuneration recommendations relating to individuals or groups of individuals which are disclosed or are significant because of their sensitivity or precedent implications, or because they are specifically covered by regulatory standards (Significant Remuneration Recommendations), and
- determination of the total PSU pool available for Executive Committee Members.

The BRC has the authority to review and approve the following on behalf of the Boards:

- all individual remuneration and profit share recommendations for Executive Directors, other than those required to be approved by the Non-Executive Directors of Macquarie and MBL. This review is to include consideration of the performance of the Executive Directors, other than those covered by the Specific Remuneration Recommendations and the Significant Remuneration Recommendations referred to above
- remuneration recommendations made outside of policy relating to individuals or groups of individuals, subject to the Specific Remuneration Recommendations and the Significant Remuneration Recommendations referred to above, and
- all individual Director promotion equity grants to staff other than those designated above.

Non-Executive Director Remuneration

The BRC is responsible for reviewing and making recommendations to the Macquarie Board in relation to:

- the remuneration framework for the Non-Executive Directors of Macquarie and MBL, and
- remuneration recommendations for Non-Executive Director fees.

The Board has adopted internal guidelines on declaring and dealing with conflicts of interest. These are rigidly followed by the BRC.

This remuneration governance framework ensures that remuneration recommendations relating to staff at various levels of seniority must be approved at an appropriate level of authority.

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3.4.2 Risk is assessed as part of the profit share allocation process

The Board considers that the effective alignment of remuneration with prudent risk taking to be a fundamental criteria for any successful remuneration system. The Board's approach to risk management is to make risk decisions at multiple levels. The Board has always used both executive judgement and quantitative risk measures to determine the quantum of variable remuneration allocations. The quantitative measures are as follows:

- the profit share pool is determined by reference to both profit (not revenue) and earnings over and above the estimated cost of capital. The CRO and the CFO advise the BRC on the risk input into the calculation of the profit share pool
- ROE is taken into account at a Macquarie-wide level and economic and prudential capital usage at a business group level for profit share pool allocation
- the performance hurdle for existing Executive Director options and Executive Committee PSUs to vest is linked to ROE, not TSR.

The Board acknowledges that quantitative risk measures have limitations and, therefore, overlays these measures with executive judgement. Just as judgement is required in managing Macquarie's risk profile, significant judgement is exercised when risk-adjusting profit share allocations. When assessing the performance of businesses and individuals, management and the BRC look at a range of factors, including risk management, governance and compliance, people leadership and upholding Macquarie's *Goals and Values*. The CRO reports to the BRC on the following:

- return on economic capital, by business
- the relationship between profitability and risk (as measured by economic capital usage)
- losses by divisions and by risk type
- the contingent risks associated with large transactions concluded during the current financial year
- Information on significant losses and compliance breaches by individual.

The BRC uses this information when considering the profit share allocated to individual Operating Groups, and profit share allocations to individuals.

In addition to this, the Non-Executive Directors of the Board have discretion to change the quantum of the profit share pool to reflect internal or external factors if deemed in Macquarie's and shareholders' interests, and/or to defer the payment of profit share amounts to a subsequent year at a Macquarie-wide, business or individual level where it is in the interests of Macquarie and shareholders to do so.

The Board seeks to ensure that remuneration is sensitive to risk outcomes in the following three ways:

Remuneration outcomes must be consistent with risk outcomes

Profit share allocations are truly variable. The profit share component is variable upward and downward in response to good or poor performance. The fact that the profit share pool at a Macquarie-wide level is determined by reference to both profit and earnings over and above the estimated cost of capital means that there is generally no available profit share in the event of a loss at a Macquarie Group level other than via the Board's discretion.

Remuneration payout schedules must be sensitive to the time horizon of risks

Under the current remuneration arrangements, the proportion of an Executive Director's 2011 profit share allocation that is deferred and subject to the time horizon of risk ranges from 40 to 70 per cent, and 50 to 70 per cent for Executive Committee members and Designated Executive Directors (70 per cent for the Managing Director and Chief Executive Officer). When PSUs are taken into consideration, the effective deferral rate is increased. A departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy or in certain other limited exceptional circumstances, and is forfeited in stages if a 'disqualifying event' occurs within two years of leaving. For example, the payment of a departing Executive Director's retained profit share will be subject to forfeiture if it is found that the individual has acted in a way that damages Macquarie, including but not limited to action or inaction that leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

From 2012, the Board will have discretion to reduce or eliminate unvested profit share amounts 'Malus' where it determines that an Employee's action or inaction has caused Macquarie significant reputational harm, caused a significant unexpected financial loss or caused it to make a material financial restatement. For the purposes of Malus, 'Employee' includes Executive Committee and Designated Executive Directors, Code Staff under the FSA Remuneration Code, senior risk and financial control staff and any other staff as determined by the BRC. Consistent with previous arrangements there are no 'golden handshake' payments.

The mix of cash, equity and other forms of remuneration should be consistent with risk alignment

Macquarie adopts a tailored approach to ensure that the retention levels and equity-based remuneration is appropriate given the seniority of the individual and their ability to influence results.

3.4.3 An independent remuneration review has been undertaken

The BRC has access to Macquarie senior management and has retained independent consultant, Pay Governance, which was previously part of the business of Towers Watson, for the use of the Board to obtain advice on the appropriateness of remuneration packages and other employment conditions as required.

The BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of Executive Director remuneration from a US office of Pay Governance (the Pay Governance Review). The only services that Pay Governance provides to Macquarie are executive compensation consulting to the BRC. This year, the Pay Governance Review considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The cost of the Pay Governance Review was approximately \$US110,000. Pay Governance has not provided any other kind of advice to Macquarie for the FY2011.

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

Arrangements were made to ensure that the Pay Governance Review was free from undue influence by Executive KMP, including that:

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

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

Pay Governance's findings were that:

- Macquarie has used essentially the same remuneration system since Macquarie's founding, which has incrementally evolved in response to the changing market and regulatory environment
- the objectives on which Macquarie's remuneration system are built are similar to those cited by other leading global investment banks, including the need to align the interests of management and shareholders, the importance of attracting and retaining the right talent, and that the remuneration structure does not encourage excessive risks

- Macquarie's remuneration system:
 - has a paramount goal to encourage management to drive shareholder returns over the short and longer term
 - has assisted Macquarie's strong shareholder returns, consistent return on equity results, and steady earnings growth over the past decade
 - has helped ensure that pay and performance are linked tightly
 - has several means to align executive reward and shareholder value creation
 - orients senior staff toward longer-term value creation rather than short-term benefits
- Macquarie's remuneration governance structure is fairly similar to that in place at Macquarie's peer US investment banks
- Macquarie's remuneration components support its remuneration principles and are very much in line with practices at peer global investment banks, including that:
 - fixed remuneration is modest, although not insignificant, 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 share price
 - individual profit share awards to executives are highly differentiated by individual contribution and results
 - a significant portion of profit share is invested in both Macquarie equity and Macquarie-managed fund equity and withheld for several years
 - executives must maintain an equity stake in Macquarie
 - equity-based compensation (in the form of Macquarie shares and Macquarie PSUs for Executive Committee) is used as a long-term incentive for executives
 - Macquarie imposes a long vesting period on the portion of profit share deferred
 - Macquarie's total remuneration as a percentage of revenue and as a percentage of earnings is centred slightly above the median relative to investment banking peers.

An external review of Non-Executive Directors' remuneration was also commissioned in early 2011 from Guerdon Associates (refer section 3.5.2 for details).

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

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

3.5.1 Non-Executive Director remuneration policy

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

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

Thus, Macquarie's Non-Executive Director remuneration arrangements are structured quite differently from the executive remuneration arrangements. Executive Directors are not remunerated for acting as Voting Directors.

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

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

3.5.2 Board and Committee fees

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

Such an external review was completed in early 2011 to ensure that the Non-Executive Directors' remuneration was in line with relevant benchmark organisations and consistent with market trends, and to ensure that the methodology and framework employed was appropriate. The review was conducted by independent consultant, Guerdon Associates, which received a fee of approximately \$A67,000.

The Board Remuneration Committee and the Board critically evaluated the analyses and the conclusions reached.

The current per annum base and Committee fees outlined below are consistent with the recommendations of this review.

Macquarie and Macquarie Bank Fees

	Macquarie fees		Macquarie Bank fees		Total fees ¹	
	\$A Chairman	\$A Member	\$A Chairman	\$A Member	\$A Chairman	\$A Member
Board	585,000	165,000	240,000	65,000	825,000	230,000
Board Risk Committee	70,000	30,000	N/A ²	N/A ²	70,000	30,000
Board Audit Committee	70,000	30,000	N/A ²	N/A ²	70,000	30,000
Board Remuneration Committee	70,000	30,000	N/A ²	N/A ²	70,000	30,000
Board Corporate Governance Committee	70,000	25,000	N/A ²	N/A ²	70,000	25,000
Board Nominating Committee	N/A ³	8,000	N/A ²	N/A ²	N/A ³	8,000

¹ An additional annual travel allowance of \$A40,000 is paid for any Non-Executive Director based in the United Kingdom.

² Macquarie Bank Limited does not have separate committees. Macquarie Group Limited's Audit Committee is a joint Committee with Macquarie Bank and the Remuneration Committee also support both Boards.

³ No separate fee is paid for this role as it is filled by the Chairman.

Base and Committee fees are paid quarterly. 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 74 of the Directors' Report.

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

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

3.5.3 Minimum shareholding requirement for Non-Executive Directors

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

Under the minimum shareholding requirement, Non-Executive Directors are required to acquire and maintain, directly or indirectly, a holding of 4,000 Macquarie ordinary shares, which they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they then maintain a holding of 6,000 Macquarie ordinary shares. Under Macquarie's *Trading Policy*, Non-Executive Directors are forbidden from hedging shares held to meet this minimum Macquarie shareholding requirement. Actual shareholdings are set out in Appendix 3 below.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

Appendices: Key Management Personnel disclosures

Appendix 1: Key Management Personnel

The following persons were Voting Directors of Macquarie Group Limited for the period during the financial years ended 31 March 2011 and 31 March 2010, unless otherwise indicated:

Directors:	Changes during 2010 and 2011 (except as noted below)
------------	--

Executive

N.W. Moore ¹	Managing Director and Chief Executive Officer
L.G. Cox, AO	Resigned 29 July 2009

Non-Executive

D.S. Clarke, AO	On leave of absence for part of FY2010 up to 30 August 2009. Resigned on 17 March 2011
M.J. Hawker, AM	Appointed to the Board on 22 March 2010
P.M. Kirby	
C.B. Livingstone, AO	
H.K. McCann, AM	Non-Executive Chairman
J.R. Niland, AC	Acting Chairman in D.S. Clarke's leave of absence. Appointed Chairman on 17 March 2011
H.M. Nugent, AO	
P.H. Warne	Acting Chairman of the Board Risk Committee in D.S. Clarke's leave of absence and was appointed Chairman of the Board Risk Committee on 27 August 2009

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of Macquarie and its controlled entities during the financial years ended 31 March 2011 and 31 March 2010, unless otherwise indicated:

Executives:

S.D. Allen ¹	Group Head, Risk Management Group (appointed 28 September 2009)
T.C. Bishop ¹	Country Head, United States of America (appointed 2 July 2010)
M. Carapiet ^{1,3}	Executive Chairman, Macquarie Capital and Macquarie Securities Group
A.J. Downe ¹	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell ¹	Group Head, Corporate and Asset Finance Group (appointed 2 July 2010)
R.S. Laidlaw ^{1,2,3}	Group Head, Macquarie Securities Group and Macquarie Capital
P.J. Maher ¹	Group Head, Banking and Financial Services Group
N.R. Minogue	Former Group Head, Risk Management Group (resigned 30 November 2009)
W.R. Sheppard ¹	Deputy Managing Director
S. Vrcelj ^{1,3}	Head of Global Cash and Equities (appointed 2 July 2010)
G.C. Ward ¹	Chief Financial Officer
S. Wikramanayake ^{1,2}	Group Head, Macquarie Funds Group

¹ Member of Macquarie's Executive Committee as at 29 April 2011

² Mr Laidlaw's and Ms Wikramanayake's responsibilities increased during the year. Mr Laidlaw became Group Head of Macquarie Capital, in addition to his existing role as Group Head of Macquarie Securities Group. Ms Wikramanayake's role as Group Head of Macquarie Funds Group broadened during the year following the merger of Macquarie Capital Funds with Macquarie Funds Group

³ Subsequent to 31 March 2011, Mr Carapiet's retirement was announced. Mr Laidlaw was appointed Executive Chairman of Macquarie Securities Group and will continue as Group Head of Macquarie Capital. Mr Vrcelj was appointed Group Head of Macquarie Securities.

The remuneration and other related party disclosures included in the Remuneration Report have been prepared in accordance with the requirements of the *Corporations Act 2001 (Cth)* and in compliance with AASB 124 *Related Party Disclosures*.

For the purpose of these disclosures, all the individuals listed above have been determined to be Key Management Personnel, as defined by AASB 124 *Related Party Disclosures*. Macquarie's Non-Executive Directors are specifically required by the *Corporations Act 2001 (Cth)* to be included as Key Management Personnel for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider themselves as part of 'management'.

Appendix 2: Remuneration disclosures

Executive remuneration

The remuneration arrangements for all of the persons listed above as Executive Directors or Executives are described in section 3 above.

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures in the remuneration tables for the years ended 31 March 2011 and 31 March 2010, only include remuneration relating to the portion of the relevant periods that each individual was a Key Management Person.

While MEREP equity awards in respect of the current year's performance will be granted in the following financial year, Macquarie begins recognising an expense (based on an initial estimate) from 1 April of the current financial year in relation to these future grants. The expense is estimated using the Macquarie share price as at 31 March 2011 (and for PSUs, also incorporates a risk free interest rate of 5.71 per cent; expected life of four years; and a dividend yield of 5.2 per cent per annum). In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each MEREP award when granted, and will use this valuation for recognising the expense over the remaining vesting period.

As explained in section 3.3.2 above, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors as additional remuneration 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 112 to 113. When these amounts are negative, they are deducted from 'Long-Term Employee Benefits' remuneration in the same column).

These earnings on restricted profit share amounts reflect the investment performance of the assets in which prior year retained DPS 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.

The table below highlights the underlying remuneration trend by adjusting the disclosed remuneration to exclude these earnings on retained DPS amounts for comparable Executive Key Management Personnel.

	2011 \$A	2010 \$A	Increase/ (Decrease)%
Comparable Executive Key Management Personnel			
Total disclosed remuneration	43,006,634	42,485,428	1
Less/(Add): Earnings/(Loss) on restricted profit share amounts	5,116,094	2,023,569	
Total underlying remuneration	37,890,540	40,461,859	(6)

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

Executive Key Management Personnel remuneration disclosure

Short-Term Employee Benefits

			Salary (including superannuation \$A)	Performance related remuneration ¹ \$A	Total short-term employee benefits \$A
Executive Directors					
N.W. Moore	<i>Managing Director and Chief Executive Officer</i>	2011	746,499	2,700,654	3,447,153
		2010	518,820	4,681,736	5,200,556
Other Executives					
M. Carapet	<i>Executive Chairman, Macquarie Capital and Macquarie Securities Group</i>	2011	640,857	1,179,759	1,820,616
		2010	384,311	2,886,191	3,270,502
A.J. Downe	<i>Group Head, Fixed Income, Currencies and Commodities Group</i>	2011	664,158	3,198,143	3,862,301
		2010	480,389	4,069,272	4,549,661
R.S. Laidlaw	<i>Group Head, Macquarie Securities Group and Macquarie Capital</i>	2011	640,857	1,435,611	2,076,468
		2010	384,311	3,157,615	3,541,926
P.J. Maher	<i>Group Head, Banking and Financial Services Group</i>	2011	658,333	1,705,676	2,364,009
		2010	456,369	1,589,514	2,045,883
W.R. Sheppard	<i>Deputy Managing Director</i>	2011	673,479	1,421,397	2,094,876
		2010	518,820	1,135,132	1,653,952
G.C. Ward	<i>Chief Financial Officer</i>	2011	689,018	1,895,196	2,584,214
		2010	432,350	1,750,895	2,183,245
S. Wikramanayake	<i>Group Head, Macquarie Funds Group</i>	2011	640,857	2,463,754	3,104,611
		2010	384,311	1,040,881	1,425,192
Total Remuneration – Comparable Executive Key Management Personnel		2011	5,354,058	16,000,190	21,354,248
		2010	3,559,681	20,311,236	23,870,917
New Executives					
S.D. Allen	<i>Group Head, Risk Management Group⁹</i>	2011	677,366	2,368,995	3,046,361
		2010	195,288	151,001	346,289
T.C. Bishop	<i>Country Head, United States of America¹⁰</i>	2011	511,746	1,449,660	1,961,406
		2010	–	–	–
G.A. Farrell	<i>Group Head, Corporate and Asset Finance Group¹⁰</i>	2011	543,806	1,678,978	2,222,784
		2010	–	–	–
S. Vrcelj	<i>Head of Global Cash and Equities¹⁰</i>	2011	544,113	664,447	1,208,560
		2010	–	–	–
Former Executive Directors and Executives					
L.G. Cox	<i>Former Executive Voting Director¹¹</i>	2011	–	–	–
		2010	130,632	–	130,632
N.R. Minogue	<i>Former Group Head, Risk Management Group¹²</i>	2011	–	–	–
		2010	289,823	709,354	999,177
Total Remuneration – Executive Key Management Personnel (including new and former members)		2011	7,631,089	22,162,270	29,793,359
		2010	4,175,424	21,171,591	25,347,015

Note: For accompanying notes refer to page 114.

Long-Term Employee Benefits										Share Based Payments		Percentage of remuneration that consists of options and PSUs	
Restricted profit share ² \$A	Earnings on prior year restricted profit share ³ \$A	Total long-term employee benefits \$A	Equity Awards including shares ⁴ \$A	PSUs ^{5,6} \$A	Options ^{7,8} \$A	Total share-based payments \$A	Total remuneration \$A	Total remuneration \$A	Total remuneration \$A	%			

1,260,305 739,980	613,298 343,373	1,873,603 1,083,353	3,492,752 358,774	2,302,283 1,201,971	(2,422,387) 1,712,935	3,372,648 3,273,680	8,693,404 9,557,589	8,693,404 9,557,589	8,693,404 9,557,589	(1.38) 30.50
(774,723) 1,324,127	1,650,229 392,993	875,506 1,717,120	1,114,537 (181,230)	1,017,002 908,885	(1,941,858) 1,542,932	189,681 2,270,587	2,885,803 7,258,209	2,885,803 7,258,209	2,885,803 7,258,209	(32.05) 33.78
319,814 (488,520)	1,565,782 532,786	1,885,596 44,266	1,974,811 172,968	2,081,316 1,362,214	(1,423,018) 1,211,123	2,633,109 2,746,305	8,381,006 7,340,232	8,381,006 7,340,232	8,381,006 7,340,232	7.85 35.06
334,976 (68,017)	650,490 236,649	985,466 168,632	1,660,380 445,182	1,519,064 735,675	(655,463) 903,519	2,523,981 2,084,376	5,585,915 5,794,934	5,585,915 5,794,934	5,585,915 5,794,934	15.46 28.29
170,568 (58,531)	63,427 37,819	233,995 (20,712)	935,379 250,053	814,914 408,361	(448,915) 324,639	1,301,378 983,053	3,899,382 3,008,224	3,899,382 3,008,224	3,899,382 3,008,224	9.39 24.37
284,279 191,737	137,324 85,716	421,603 277,453	736,649 290,170	564,369 207,760	(603,835) 440,288	697,183 938,218	3,213,662 2,869,623	3,213,662 2,869,623	3,213,662 2,869,623	(1.23) 22.58
379,039 98,826	152,653 52,658	531,692 151,484	1,063,893 61,337	1,032,724 644,976	(491,328) 354,464	1,605,289 1,060,777	4,721,195 3,395,506	4,721,195 3,395,506	4,721,195 3,395,506	11.47 29.43
1,231,877 665,182	282,891 341,575	1,514,768 1,006,757	515,124 9,823	814,137 314,453	(322,373) 504,886	1,006,888 829,162	5,626,267 3,261,111	5,626,267 3,261,111	5,626,267 3,261,111	8.74 25.12
3,206,135 2,404,784	5,116,094 2,023,569	8,322,229 4,428,353	11,493,525 1,407,077	10,145,809 5,784,295	(8,309,177) 6,994,786	13,330,157 14,186,158	43,006,634 42,485,428	43,006,634 42,485,428	43,006,634 42,485,428	43,006,634 42,485,428
473,799 (46,610)	149,185 (10,845)	622,984 (57,455)	900,867 449,874	724,743 93,240	254,090 238,684	1,879,700 781,798	5,549,045 1,070,632	5,549,045 1,070,632	5,549,045 1,070,632	17.64 31.00
(194,439)	494,800	300,361	766,103	278,337	480,583	1,525,023	3,786,790	3,786,790	3,786,790	20.04
—	—	—	—	—	—	—	—	—	—	—
167,898	509,527	677,425	629,841	310,889	218,571	1,159,301	4,059,510	4,059,510	4,059,510	13.04
—	—	—	—	—	—	—	—	—	—	—
155,038	59,257	214,295	721,615	205,237	164,883	1,091,735	2,514,590	2,514,590	2,514,590	14.72
—	—	—	—	—	—	—	—	—	—	—
—	7,043	7,043	—	—	(57,082)	(57,082)	80,593	80,593	80,593	(70.83)
—	—	—	—	—	—	—	—	—	—	—
709,354	132,062	841,416	—	—	(312,722)	(312,722)	1,527,871	1,527,871	1,527,871	(20.47)
3,808,431 3,067,528	6,328,863 2,151,829	10,137,294 5,219,357	14,511,951 1,856,951	11,665,015 5,877,535	(7,191,050) 6,863,666	18,985,916 14,598,152	58,916,569 45,164,524	58,916,569 45,164,524	58,916,569 45,164,524	58,916,569 45,164,524

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

Notes on elements of executive remuneration

¹ Performance related remuneration represents the current portion of each individual's profit share allocation in relation to the reporting period. For 2010, these amounts also include an adjustment to reflect the difference between the percentage of 2009 profit share that was reported as current in the 2009 Executive remuneration disclosure and the actual percentage of 2009 profit share that is current, as per the remuneration arrangements approved by shareholders on 17 December 2009.

² This is the amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity, as described in section 3.3.2. For 2011, this amount also includes an adjustment to reflect reallocations of 2010 retained profit share between the Post-2009 DPS Plan and the MERP. For 2010, this amount also includes an adjustment to reflect the difference between the percentage of 2009 retained profit share notionally invested in Macquarie-managed fund equity as reported in the 2009 Executive remuneration disclosure and the actual percentage of 2009 retained profit share notionally invested in Macquarie-managed fund equity, as per the remuneration arrangements approved by shareholders on 17 December 2009.

³ This is the notional earnings / (loss) on prior year restricted profit share allocations described on page 113 to 114 in this Appendix.

⁴ This is the current year amortisation, calculated on the basis as described in note 1(xx) – Share based payments to the 2011 Financial Statements in respect of:

- retained profit share, which is deferred to future periods and invested in Macquarie ordinary shares as described in section 3.3.2.
- the discount to the fair value per share at grant date for Transitioned Amounts (as defined in section 3.3.1).

For 2010, this amount also represents the write back of 100 per cent of 2009 profit share which was allocated to invest in fully vested Macquarie ordinary shares under the Executive Committee Share Acquisition Plan^a. This is an adjustment because this was delivered as Macquarie equity under MERP, which is expensed over the vesting period from 1 April 2009 which is up to seven years for the most senior group.

⁵ This amount has been calculated on the basis as described in note 1(xx) – Share based payments to the 2011 Financial Statements. PSU grants for each individual have been measured at their grant date based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of PSUs granted. For grants in respect of the 2011 performance year which have not yet been granted, the Macquarie share price as at 31 March 2011 is used to estimate the expense.

⁶ Performance hurdles attached to the PSUs issued to the Executive Committee allow for PSUs to become exercisable upon vesting only when the relevant performance hurdles are met. Performance hurdles for PSUs issued in respect of the 2009 performance year and vesting at 1 July 2011 are not expected to be achieved and therefore the PSUs are not expected to vest. The related expense previously recognised to 31 March 2010 has been reversed in the current financial year and results in a reduction in total 2011 remuneration for the impacted individuals.

⁷ This amount has been calculated on the basis as described in note 1(xx) – Share based payments to the 2011 Financial Statements. Prior option grants for each individual have been measured at their grant dates based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of options granted, regardless of whether the options are in or out of the money. For 2011, the amount is based on options granted in August 2006 (exercise price of \$A61.79), August 2007 (exercise price of \$A71.41) and August 2008 (exercise price of \$A53.91). If an option lapses in a reporting period, amounts previously recognised as remuneration in relation to the lapsed options are deducted from remuneration in the reporting period. For 2010, in the case of Mr Cox, 9,083 options lapsed during FY 2010 when he resigned from the Board on 29 July 2009, and in the case of Mr Minogue, 87,502 options lapsed during FY2010 when he resigned from executive responsibilities on 30 November 2009. The reversal of the amounts previously recognised in relation to these options exceeded the amounts recognised in relation to their options which vested during the year, resulting in a negative balance in the table above for 2010 for Mr Cox and Mr Minogue.

⁸ Performance hurdles attached to the options issued to the Executive Committee and Executive Voting Directors allow for options to become exercisable upon the relevant performance hurdles being met. Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2010 were not achieved and therefore the options did not vest. The related expense previously recognised for these option grants has been reversed in the current financial year and results in a reduction in total 2011 remuneration for the impacted individuals. Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2011 are not expected to be achieved and therefore the options are not expected to vest. The related expense previously recognised to 31 March 2010 has been reversed in the current financial year and results in a reduction in total 2011 remuneration for the impacted individuals.

Notes on individuals

⁹ Mr Allen was appointed to the Executive Committee on 28 September 2009.

¹⁰ Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010.

¹¹ Mr Cox resigned from the Board on 29 July 2009.

¹² Mr Minogue resigned from the Executive Committee on 30 November 2009.

^a Remuneration arrangements for Executive Committee members were changed in 2008 whereby 10 per cent of pre-tax annual profit share was allocated to invest in fully vested Macquarie ordinary shares for at least three years. In 2009, this was to be increased to 35 per cent pre-tax for the Managing Director and Chief Executive Officer and 20 per cent pre-tax for other Executive Committee members. As the shares were fully vested, 100 per cent of the allocation was expensed in the year of grant.

Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 3.5.2 above.

		Directors Fees \$A	Other Benefits ¹ \$A	Total Compensation \$A
D.S. Clarke ²	2011	825,000	–	825,000
	2010	570,793	–	570,793
M.J. Hawker ³	2011	257,500	30,000	287,500
	2010	6,720	–	6,720
P.M. Kirby	2011	310,750	–	310,750
	2010	291,250	–	291,250
C.B. Livingstone ⁴	2011	355,050	–	355,050
	2010	321,250	7,700	328,950
H.K. McCann ⁵	2011	370,000	7,500	377,500
	2010	514,489	–	514,489
J.R. Niland	2011	310,750	–	310,750
	2010	290,000	–	290,000
H.M. Nugent	2011	335,500	29,250	364,750
	2010	321,250	29,250	350,500
P.H. Warne ⁶	2011	377,050	–	377,050
	2010	336,500	–	336,500
Total Remuneration – Non-Executive Key Management Personnel	2011	3,141,600	66,750	3,208,350
	2010	2,652,252	36,950	2,689,202

¹ Other benefits for Non-Executive Directors include an additional annual travel allowance of \$A40,000 for Mr Hawker effective 1 July 2010 as a Non-Executive Director based in the United Kingdom; 2010 Annual General Meeting Chairman fee for Mr McCann of \$A7,500; BRC related per diem fees for Dr Nugent of \$A29,250 (2010: \$A29,250); and due diligence committee fees paid to Ms Livingstone of \$A7,700 in 2010.

² Mr Clarke sought and was granted leave for part of FY2010 up to 30 August 2009 and resigned from the Board on 17 March 2011.

³ Mr Hawker was appointed to the Board and the Board Risk Committee on 22 March 2010.

⁴ Ms Livingstone was appointed to the Board Corporate Governance Committee on 15 June 2010.

⁵ Mr McCann was appointed Acting Chairman in Mr Clarke's absence (for part of FY2010 up to 30 August 2009) and Chairman on 17 March 2011.

⁶ Mr Warne was appointed Acting Chairman of the Board Risk Committee in Mr Clarke's absence and was appointed Chairman on 27 August 2009. Mr Warne was appointed to the Board Corporate Governance Committee on 15 June 2010.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

Appendix 3: Share and option disclosures

Shareholding of Key Management Personnel and their related parties

The following table sets out details of Macquarie fully paid ordinary shares held during the year by the Key Management Personnel including their related parties.

For the year ended 31 March 2011

Name and position	Number of shares held at 1 April 2010 ¹	Shares received on withdrawal from the MEREP	Other changes ²	Number of shares held at 31 March 2011 ³
Executive Directors				
N.W. Moore	1,245,745	–	–	1,245,745
Non-Executive Directors				
H.K. McCann	13,485	–	–	13,485
M.J. Hawker	4,103	–	2,000	6,103
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	38,205	13,290	(13,290)	38,205
T.C. Bishop ⁴	–	6,074	(6,074)	–
M. Carapiet	587,616	–	–	587,616
A.J. Downe	78,878	–	(20,779)	58,099
G.A. Farrell ⁴	148,646	–	(16,963)	131,683
R.S. Laidlaw	39,035	13,159	(50,329)	1,865
P.J. Maher	74,175	9,832	(75,270)	8,737
W.R. Sheppard	249,309	14,799	(35,925)	228,183
S. Vrcelj ⁴	–	9,341	(9,341)	–
G.C. Ward	15,345	8,106	(14,515)	8,936
S. Wikramanayake	326,867	8,485	–	335,352
Former				
D.S. Clarke ⁵	273,717	–	(213,464)	60,253

Minimum shareholding requirements for Executive Key Management Personnel are met by the RSUs they hold through MEREP.

¹ Or date of appointment if later.

² Includes on-market acquisitions and disposals.

³ Or date of resignation if earlier.

⁴ Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents holdings at the date of their appointment.

⁵ Mr Clarke resigned from the Board on 17 March 2011. Balance at 31 March 2011 represents holdings at date of resignation.

Shares

Shareholding of Key Management Personnel and their related parties continued

For the year ended 31 March 2010

Name and position	Number of shares held at 1 April 2009 ¹	Shares issued on exercise of options	Other changes ²	Number of shares held at 31 March 2010 ³
Executive Directors				
N.W. Moore	1,197,411	48,334	–	1,245,745
Non-Executive Directors				
D.S. Clarke ⁴	704,914	–	(431,197)	273,717
M.J. Hawker ⁵	4,103	–	–	4,103
P.M. Kirby	18,996	–	4,202	23,198
C.B. Livingstone	8,980	–	3,020	12,000
H.K. McCann	11,359	–	2,126	13,485
J.R. Niland	9,559	–	563	10,122
H.M. Nugent	20,613	–	563	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen ⁶	38,205	–	–	38,205
M. Carapiet	680,750	–	(93,134)	587,616
A.J. Downe	124,102	–	(45,224)	78,878
R.S. Laidlaw	38,475	–	560	39,035
P.J. Maher	106,175	–	(32,000)	74,175
W.R. Sheppard	267,790	–	(18,481)	249,309
G.C. Ward	15,345	13,334	(13,334)	15,345
S. Wikramanayake	326,867	–	–	326,867
Former				
L.G. Cox ⁷	269,812	–	–	269,812
N.R. Minogue ⁸	136,620	–	–	136,620

¹ Or date of appointment if later.

² Includes on-market acquisitions and disposals.

³ Or date of resignation if earlier.

⁴ Mr Clarke sought and was granted leave for part of FY2010 up to 30 August 2009.

⁵ Mr Hawker was appointed to the Board on 22 March 2010. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁶ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁷ Mr Cox resigned from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of resignation.

⁸ Mr Minogue resigned from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of resignation.

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for the financial year ended 31 March 2011

continued

MEREP RSU Awards of Key Management Personnel and their related parties

The following tables set out details of the MEREP RSU awards associated with Macquarie shares held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis. PSUs are disclosed in a separate table.

For the financial year ended 31 March 2011

Name and position	Number of RSU awards held at 1 April 2010 ¹	RSU awards granted during the financial year ²	Vested RSU awards withdrawn from the MEREP during the financial year	Number of RSU awards held at 31 March 2011 ³	Number of RSU awards vested at 31 March 2011	Value of RSU awards granted as part of remuneration and that vested during the financial year
Executive Directors						
N.W. Moore	466,460	105,362	–	571,822	58,567	2,206,219
Executives						
S.D. Allen ⁴	113,565	40,304	(13,290)	140,579	–	500,634
T.C. Bishop ⁵	159,242	–	(6,074)	153,168	6,002	454,903
M. Carapiet	34,661	45,715	–	80,376	–	–
A.J. Downe	80,877	97,961	–	178,838	–	–
G.A. Farrell ⁶	60,508	–	–	60,508	–	–
R.S. Laidlaw	126,778	71,266	(13,159)	184,885	–	495,700
P.J. Maher	88,468	36,245	(9,832)	114,881	–	370,371
W.R. Sheppard	108,729	21,769	(14,799)	115,699	–	557,478
S. Vrcelj ⁶	104,379	–	(9,341)	95,038	–	351,875
G.C. Ward	92,688	38,313	(8,106)	122,895	–	305,353
S. Wikramanayake ⁷	69,028	13,605	(8,485)	74,148	–	319,630

¹ Or date of appointment if later.

² As discussed in note 1(xx) – Share based payments to the Financial Statements, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, RSUs disclosed as granted above relate to 2010.

³ Or date of resignation if earlier.

⁴ At 31 March 2011, 88,406 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying Macquarie shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

⁵ Mr Bishop was appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents holdings at the date of appointment. As at 31 March 2011, 60,382 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.

⁶ Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents holdings at the date of their appointment.

⁷ At 31 March 2011, 47,603 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying Macquarie shares however these awards have the same economic benefits as an RSU held in the MEREP.

MEREP RSU Awards of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2010

Name and position	Number of RSU awards held at 1 April 2009 ¹	RSU awards granted during the financial year ²	Vested RSU awards withdrawn from the MEREP during the financial year	Number of RSU awards held at 31 March 2010 ³	Number of RSU awards vested at 31 March 2010	Value of RSU awards granted as part of remuneration and that vested during the financial year \$A
Executive Directors						
N.W. Moore	–	466,460	–	466,460	–	–
Executives						
S.D. Allen ⁴	–	113,565	–	113,565	–	–
M. Carapiet	–	34,661	–	34,661	–	–
A.J. Downe	–	80,877	–	80,877	–	–
R.S. Laidlaw	–	126,778	–	126,778	–	–
P.J. Maher	–	88,468	–	88,468	–	–
W.R. Sheppard	–	108,729	–	108,729	–	–
G.C. Ward	–	92,688	–	92,688	–	–
S. Wikramanayake ⁵	–	69,028	–	69,028	–	–
Former						
L.G. Cox ⁶	–	–	–	–	–	–
N.R. Minogue ⁷	–	–	–	–	–	–

¹ Or date of appointment if later.

² As discussed in note 1(xx) – Share based payments to the Financial Statements, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, RSUs disclosed as granted above relate to 2009 and include pre-2009 in relation to transition awards.

³ Or date of resignation if earlier.

⁴ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment. 88,406 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying Macquarie shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

⁵ 49,330 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying Macquarie shares however these awards have the same economic benefits as an RSU held in the MEREP.

⁶ Mr Cox resigned from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of resignation.

⁷ Mr Minogue resigned from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of resignation.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

MEREP Performance Share Unit (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.

For the financial year ended 31 March 2011

Name and position	Number of PSU awards held at 1 April 2010 ¹	PSU awards granted during the financial year ²	PSU awards exchanged during the financial year	Number of PSU awards held at 31 March 2011 ³	Number of PSU awards vested during the financial year	Number of PSU awards vested at 31 March 2011 ³	Value of PSUs granted as part of remuneration and that are exercised or sold during the financial year \$A
Executive Directors							
N.W. Moore	38,300	108,225	–	146,525	–	–	–
Executives							
S.D. Allen	–	29,906	–	29,906	–	–	–
T.C. Bishop	–	–	–	–	–	–	–
M. Carapiet	34,300	69,624	–	103,924	–	–	–
A.J. Downe	53,500	99,567	–	153,067	–	–	–
G.A. Farrell	–	–	–	–	–	–	–
R.S. Laidlaw	20,700	72,510	–	93,210	–	–	–
P.J. Maher	13,000	36,796	–	49,796	–	–	–
W.R. Sheppard	3,900	24,927	–	28,827	–	–	–
S. Vrcelj	–	–	–	–	–	–	–
G.C. Ward	26,700	44,011	–	70,711	–	–	–
S. Wikramanayake	11,500	24,927	–	36,427	–	–	–

¹ Or date of appointment if later.

² As discussed in note 1(xx) – Share based payments to the Financial Statements, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, PSUs disclosed as granted above relate to 2010.

³ Or date of resignation if earlier.

MEREP Performance Share Unit (PSU) Awards of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2010

Name and position	Number of PSU awards granted during the financial year ¹	PSU awards held at 1 April 2009 ¹	PSU awards exchanged during the financial year ²	Number of PSU awards held at 31 March 2010 ³	Number of PSU awards vested during the financial year	Number of PSU awards vested at 31 March 2010 ³	Value of PSUs granted as part of remuneration and that are exercised or sold during the financial year \$
Executive Directors							
N.W. Moore	–	38,300	–	38,300	–	–	–
Executives							
S.D. Allen ⁴	–	–	–	–	–	–	–
M. Carapiet	–	34,300	–	34,300	–	–	–
A.J. Downe	–	53,500	–	53,500	–	–	–
R.S. Laidlaw	–	20,700	–	20,700	–	–	–
P.J. Maher	–	13,000	–	13,000	–	–	–
W.R. Sheppard	–	3,900	–	3,900	–	–	–
G.C. Ward	–	26,700	–	26,700	–	–	–
S. Wikramanayake	–	11,500	–	11,500	–	–	–
Former							
L.G. Cox ⁵	–	–	–	–	–	–	–
N.R. Minogue ⁶	–	–	–	–	–	–	–

¹ Or date of appointment if later.

² As discussed in note 1(xx) – Share based payments to the Financial Statements, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, PSUs disclosed as granted above relate to 2009.

³ Or date of resignation if earlier.

⁴ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁵ Mr Cox resigned from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of resignation.

⁶ Mr Minogue resigned from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of resignation.

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Details of PSUs granted and their fair value at grant date

For the year ended 31 March 2011

Name and position	Date PSUs granted ¹	Number of PSUs granted	PSUs exercise price \$A	Fair value at grant date ² \$A	Value of PSUs granted as part of remuneration during the year \$A	Date first tranche can be exercised	Expiry date
Executive Directors							
N.W. Moore	13 August 2010	108,225	–	34.63	3,747,832	1 July 2012	13 August 2018
Executives							
S. D Allen	13 August 2010	29,906	–	34.63	1,035,645	1 July 2012	13 August 2018
M. Carapiet	13 August 2010	69,624	–	34.63	2,411,079	1 July 2012	13 August 2018
A.J. Downe	13 August 2010	99,567	–	34.63	3,448,005	1 July 2012	13 August 2018
R.S. Laidlaw	13 August 2010	72,510	–	34.63	2,511,021	1 July 2012	13 August 2018
P.J. Maher	13 August 2010	36,796	–	34.63	1,274,245	1 July 2012	13 August 2018
W.R. Sheppard	13 August 2010	24,927	–	34.63	863,222	1 July 2012	13 August 2018
G.C. Ward	13 August 2010	44,011	–	34.63	1,524,101	1 July 2012	13 August 2018
S. Wikramanayake	13 August 2010	24,927	–	34.63	863,222	1 July 2012	13 August 2018

¹ This is the grant date for accounting purposes.

² Refer to notes on fair value below.

Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to Key Management Personnel. The fair value of such grants is being amortised and disclosed as part of each KMP remuneration on a straight-line basis over the vesting period.

The 2010 PSU allocation has been determined based on a valuation of a PSU at 13 August 2010. The fair value at this date has been estimated using a discounted cash flow method. For the purpose of calculating the PSU related compensation in Appendix 2 above, Macquarie has assumed that all PSUs will vest, except where it is known that a PSU lapsed during the period.

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

- risk free interest rate: 5.20 per cent per annum
- expected life of PSU: 4 years
- forecast dividend yield: 3.47 per cent per annum

Details of PSUs granted and their fair value at grant date continued

For the year ended 31 March 2010

Name and position	Date PSUs granted ¹	Number of PSUs granted	PSUs exercise price \$A	Fair value at grant date ² \$A	Value of PSUs granted as part of remuneration during the year ³ \$A	Date first tranche can be exercised	Expiry date
Executive Directors							
N.W. Moore	17 December 2009	38,300	–	43.85	1,679,455	1 July 2011	4 March 2018
Executives							
M. Carapiet	17 December 2009	34,300	–	43.85	1,504,055	1 July 2011	4 March 2018
A.J. Downe	17 December 2009	53,500	–	43.85	2,345,975	1 July 2011	4 March 2018
R.S. Laidlaw	17 December 2009	20,700	–	43.85	907,695	1 July 2011	4 March 2018
P.J. Maher	17 December 2009	13,000	–	43.85	570,050	1 July 2011	4 March 2018
W.R. Sheppard	17 December 2009	3,900	–	43.85	171,015	1 July 2011	4 March 2018
G.C. Ward	17 December 2009	26,700	–	43.85	1,170,795	1 July 2011	4 March 2018
S. Wikramanayake	17 December 2009	11,500	–	43.85	504,275	1 July 2011	4 March 2018

¹ This is the grant date for accounting purposes.

² Refer to notes on fair value below.

³ Values restated based on corrected fair value at grant date.

Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to Key Management Personnel. The fair value of such grants is being amortised and disclosed as part of each KMP remuneration on a straight-line basis over the vesting period.

The 2009 PSU allocation has been determined based on a valuation of a PSU at 17 December 2009, being the day on which MEREP was approved by shareholders. The fair value at this date has been estimated using a discounted cash flow method. For the purpose of calculating the PSU related compensation in Appendix 2 above, Macquarie has assumed that all PSUs will vest, except where it is known that a PSU lapsed during the period.

The following key assumptions were adopted in estimating the value of the PSUs granted in respect of the 2009 year:

- risk free interest rate: 5.24 per cent per annum
- expected life of PSU: 4 years
- forecast dividend yield: 3.47 per cent per annum

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Options

Option holdings of Key Management Personnel and their related parties

The following table sets out details of options held during the year for the Key Management Personnel including their related parties. The options are over fully paid unissued ordinary shares of Macquarie Group Limited.

For the year ended 31 March 2011

Name and position	Number of options outstanding at 1 April 2010 ¹	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met ²	Other changes ³	Number of options outstanding at 31 March 2011 ⁴	Number of options vested during the financial year	Number of options vested at 31 March 2011 ⁴	Value of options granted as part of remuneration and that are exercised or sold during the financial year ⁵ \$A
Executive Directors								
N.W. Moore	623,501	–	(186,100)	(170,000)	267,401	–	53,333	–
Executives								
S.D. Allen	218,725	–	–	(69,750)	148,975	49,659	98,112	–
T.C. Bishop ⁶	355,219	–	–	(24,414)	330,805	–	181,470	–
M. Carapet	460,781	–	(156,454)	(81,207)	223,120	–	47,786	–
A.J. Downe	341,334	–	(116,000)	(50,000)	175,334	–	28,333	–
G.A. Farrell ⁶	211,595	–	–	(33,500)	178,095	–	113,767	–
R.S. Laidlaw	347,925	–	(45,000)	(52,320)	250,605	53,536	134,816	–
P.J. Maher	103,334	–	(34,999)	(16,667)	51,668	–	10,000	–
W.R. Sheppard	161,000	–	(47,000)	(50,000)	64,000	–	15,000	–
S. Vrcelj ⁶	108,000	–	–	–	108,000	–	57,333	–
G.C. Ward	123,500	–	(37,833)	(30,000)	55,667	–	10,000	–
S. Wikramanayake	178,275	–	(26,666)	(23,000)	128,609	25,092	60,211	–

¹ Or date of appointment if later.

² Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2010 were not achieved and therefore the options did not vest. These options were not exercisable and the related expense previously recognised on these option grants was reversed during the year. The value of those options that lapsed calculated on 1 July 2010 was \$nil. Such options have been excluded from the table above.

³ Includes vested options lapsed during the financial year.

⁴ Or date of resignation if earlier.

⁵ Includes options that were granted as part of remuneration in prior financial years.

⁶ Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents holdings at the date of their appointment.

Option holdings of Key Management Personnel and their related parties continued

The following table sets out details of options held during the year for the Key Management Personnel including their related parties. The options are over fully paid unissued ordinary shares of Macquarie Group Limited.

For the year ended 31 March 2010

Name and position	Number of options outstanding at 1 April 2009 ¹	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met ²	Other changes ³	Number of options outstanding at 31 March 2010 ⁴	Number of options vested during the financial year	Number of options vested at 31 March 2010 ⁴	Value of options granted as part of remuneration and that are exercised or sold during the financial year ⁵ \$A
Executive Directors								
N.W. Moore	776,634	(48,334)	(104,799)	–	623,501	56,668	223,333	595,475
Executives								
S.D. Allen ⁶	218,725	–	–	–	218,725	–	90,303	–
M. Carapiet	550,567	–	(89,786)	–	460,781	40,604	128,993	–
A.J. Downe	426,334	–	(56,666)	(28,334)	341,334	16,668	78,333	97,752
R.S. Laidlaw	372,374	–	–	(24,449)	347,925	70,974	133,600	75,792
P.J. Maher	135,001	–	(18,333)	(13,334)	103,334	8,334	26,667	115,739
W.R. Sheppard	224,334	–	(30,000)	(33,334)	161,000	16,668	65,000	66,668
G.C. Ward	156,834	(13,334)	(20,000)	–	123,500	10,000	40,000	90,538
S. Wikramanayake	178,275	–	–	–	178,275	36,591	58,119	–
Former								
L.G. Cox ⁷	32,265	–	(6,081)	(26,184)	–	–	–	–
N.R. Minogue ⁸	170,834	–	(23,332)	(100,836)	46,666	11,668	46,666	42,535

¹ Or date of appointment if later.

² Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2009 were not achieved and therefore the options did not vest. These options were not exercisable and the related expense previously recognised on these option grants were reversed in the prior year. The value of those options that lapsed calculated on 1 July 2009 was \$nil. Such options have been excluded from the table above.

³ Includes vested options sold under facility provided by an external party, unless otherwise noted.

⁴ Or date of resignation if earlier.

⁵ Includes options that were granted as part of remuneration in prior financial years.

⁶ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance at 1 April 2009 represents holdings at date of appointment.

⁷ Mr Cox resigned from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of resignation.

⁸ Mr Minogue resigned from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of resignation.

Ordinary shares issued as a result of the exercise of options by Key Management Personnel during the year

There were no options exercised by Key Management Personnel during the year ending 31 March 2011.

For the year ended 31 March 2010

Name and position	Number of options exercised during the financial year	Number of shares issued on exercise of options	Exercise price paid in full per share \$A
Executives			
N.W. Moore	48,334	48,334	32.26
G.C. Ward	13,334	13,334	33.11

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Appendix 4: Loan disclosures

Loans to Key Management Personnel

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

		Opening balance at 1 April \$A'000	Interest charged \$A'000	Write-down \$A'000	Closing balance at 31 March \$A'000	Number in group 31 March
Total for Key Management Personnel and their related parties	2011	31,691	1,290	–	5,532	n/a
	2010	42,861	3,045	–	31,691	n/a
Total for Key Management Personnel	2011	12,422	693	–	5,532	3
	2010	22,729	863	–	12,422	5

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

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

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

For the year ended 31 March 2011

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

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

² Or date of resignation if earlier.

³ Mr Clarke resigned from the Board on 17 March 2011. Balance at 31 March 2011 represents the balance at date of resignation.

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

For the year ended 31 March 2010

Name and position	Balance at 1 April 2009 \$A'000	Interest charged ¹ \$A'000	Write-down \$A'000	Balance at 31 March 2010 ² \$A'000	Highest balance during financial year \$A'000
Executive Directors					
N.M. Moore	5,313	330	–	5,274	5,313
Non-Executive Directors					
D.S. Clarke ³	37,290	2,700	–	26,160	38,975
Executives					
R.S. Laidlaw	238	14	–	238	238

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

² Or date of resignation if earlier.

³ Mr Clarke sought and was granted leave for part of FY2010 up to 30 August 2009.

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Appendix 5: Other disclosures

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

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

	Consolidated 2011 \$A'000	Consolidated 2010 \$A'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	13,892	10,123

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

Executive Directors

N.W. Moore

Non-Executive Directors

P.M. Kirby

Executives

S.D. Allen, M. Carapiet, A.J. Downe, G.A. Farrell (2011 only) R.S. Laidlaw, P.J. Maher, W.R. Sheppard, S. Vrcelj (2011 only), G.C. Ward, S. Wikramanayake

Former

L.G. Cox (2010 only), N.R. Minogue (2010 only)

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

Name and position	Description	Number of shares 2011 ¹	Number of shares 2010 ²
Executives			
A.J. Downe	Matured August 2010	21,905	–
	Matured July 2010	–	21,905
Former			
D.S. Clarke	Matured June 2010	–	213,517

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

² The collar and the loan reported for Mr Clarke and the collar reported for Mr Downe for the year ending 31 March 2010 were unwound on 31 May 2010 and 1 June 2010 respectively. The shares and the loan (where applicable) were repaid on those dates.

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

This is the end of the Remuneration Report.

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Voting Directors' equity participation

At 29 April 2011, 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 29 April 2011	Share options held at 29 April 2011 ¹	RSUs held in the MERE ²	PSUs held in the MERE ²
N.W. Moore	1,245,745	558,300	571,822	146,525
M.J. Hawker	2,000	–	–	–
P.M. Kirby	23,198	–	–	–
C.B. Livingstone	12,000	–	–	–
H.K. McCann	13,485	–	–	–
J.R. Niland	10,122	–	–	–
H.M. Nugent	13,006	–	–	–
P.H. Warne	15,821	–	–	–

¹ These share options were issued pursuant to the Macquarie Group Employee Share Option Plan and are subject to the exercise conditions applying to grants of options to Executive Directors, as described in note 36 – Employee equity participation.

² 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 36 – 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 29 April 2011 in managed investment schemes made available by subsidiaries of Macquarie and contracts that confer a right to call for or deliver shares in Macquarie are listed on page 131.

Directors' Report

for the financial year ended 31 March 2011

continued

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) of Macquarie or a subsidiary.

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 of Indemnity, Access, Insurance and Disclosure described above. However, the Deed Poll does not provide for access to company documents of Macquarie or any subsidiary of Macquarie.

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.

Share options

Information on Macquarie Group's share option scheme, options granted and shares issued as a result of the exercise of options during or since the end of the financial year is contained in note 36 to the full financial report – Employee equity participation.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any other corporation. No unissued shares, other than those referred to above, are under option as at the date of this report.

Directors' relevant interests

The relevant interests of Directors on 29 April 2011 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 Director			
N.W. Moore	Macquarie ordinary shares Macquarie Employee Retained Equity Plan (MEREП) Restricted Share Units (RSUs) Macquarie Group Employee Share Option Plan (MGESOP) Options MEREП Performance Share Units (PSUs) Macquarie Global Infrastructure Fund (GIF) (B) units 2006 Macquarie ReFleXion Trusts units 2004 Macquarie Timber Land Trust units 2006 Macquarie Timber Land Trust units Macquarie GIF III (B) units	858,699 571,822 558,300 146,525 483,674 5,000,000 50 75 1,637,618	Macquarie ordinary shares Macquarie GIF (B) units Macquarie GIF III (B) units 387,046 64,177 362,382
Independent Voting Directors			
M.J. Hawker	Macquarie ordinary shares	2,000	Macquarie Convertible Preference Securities Macquarie Wrap Cash Account (MWCA) units
P.M. Kirby	Macquarie ordinary shares	23,198	MQ Capital-Asia Trust units MQ Special Events Fund units
C.B. Livingstone	Macquarie ordinary shares	646	Macquarie ordinary shares Charter Hall REIT units
H.K. McCann	Macquarie ordinary shares	11,922	Macquarie ordinary shares No.1 Martin Place Trust units
J.R. Niland	Macquarie ordinary shares	2,309	Macquarie ordinary shares
H.M. Nugent	Macquarie ordinary shares	3,564	Macquarie ordinary shares
P.H Warne	Macquarie ordinary shares	2,744	Macquarie ordinary shares Charter Hall REIT units
			14,084

Directors' Report

for the financial year ended 31 March 2011

continued

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

Details of the amounts paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), and its related practices for non-audit services provided during the year is disclosed in note 44 – Audit and other services provided by PricewaterhouseCoopers.

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

The BAC has reviewed a summary of non-audit services provided during the year by PwC and its related practices, and has confirmed that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Act. This has been formally advised to the Board of Directors. Consequently, the Voting Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices did not compromise the auditor independence requirements of 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 98/0100 (as amended), amounts in the full 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
29 April 2011

Directors' Report Schedule 1

for the financial year ended 31 March 2011

Directors' experience and special responsibilities

H Kevin McCann, AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 70)

Independent Chairman since 17 March 2011

Independent Voting Director – joined the Board in August 2007

Chairman – Board Corporate Governance Committee

Chairman – Board Nominating Committee since 1 April 2011

Member – Board Audit Committee

Member – Board Risk Committee

Kevin McCann joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Mr McCann was appointed as an Independent Voting Director of Macquarie Bank Limited in December 1996 and continues to hold this position. Mr McCann was appointed Macquarie's Lead Independent Director in October 2007 and as the Chairman of the Macquarie Group Limited and Macquarie Bank Limited Boards on 17 March 2011. He is currently Chairman of Origin Energy Limited (since February 2000) and ING Management Limited (since September 2010), a Director of BlueScope Steel Limited (since May 2002) and a member of the Council of the National Library of Australia, the University of Sydney Senate and the Evans and Partners Advisory Board. Mr McCann is also NSW President and a board member of the Australian Institute of Company Directors.

Mr McCann was a Partner (from 1970 to 2004) and Chairman of Allens Arthur Robinson, a leading firm of Australian lawyers. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He was previously Chairman of Triako Resources Limited (April 1999 to 2006) and Healthscope Limited (March 1994 to October 2008).

Mr McCann is a resident of New South Wales.

Nicholas W Moore, BCom LLB (UNSW), FCA (age 52)

Managing Director and Chief Executive Officer since May 2008

Executive Voting Director – joined the Board in February 2008

Member – Board Risk Committee

Nicholas Moore joined the Board of Macquarie Group Limited in February 2008 as an Executive Voting Director. Mr Moore was appointed as an Executive Voting Director of Macquarie Bank Limited in May 2008 and continues to hold this position. Currently, Mr Moore is Managing Director and Chief Executive Officer of Macquarie Group Limited. He is also Chairman of the Police and Community Youth Clubs NSW Limited, a Director of the Centre for Independence Studies and Chairman of the University of NSW Business School Advisory Council.

Mr Moore joined Macquarie's Corporate Services Division in 1986. He led a range of transactions, including Hills Motorway, which led the development of Macquarie's infrastructure business. 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 (predecessor to Macquarie Capital) on its inception in 2001. In this role, he oversaw significant growth in Macquarie Capital's net income through the global growth of the advisory, fund management, financing and securities businesses. He was previously a Director of Macquarie Infrastructure Group (January 1996 to April 2008), Macquarie Capital Alliance Group (August 2003 to April 2008) and Macquarie Media Group (September 2005 to April 2008).

Mr Moore is a resident of New South Wales.

Directors' Report Schedule 1

for the financial year ended 31 March 2011

continued

Michael J Hawker, AM, BSc (Sydney), FAICD, FAIM, SF Fin (age 51)

Independent Voting Director – joined the Board in March 2010

Member – Board Risk Committee

Michael Hawker joined the Board of Macquarie Group Limited and Macquarie Bank Limited as an Independent Voting Director in March 2010. Mr Hawker also serves as a Director of Aviva Plc, the largest insurance provider in the UK (since January 2010), the Australian Rugby Union, the Sydney University Football Club Foundation and Chairman of the George Institute for Global Health. He is also a member of the board of trustees of the Giant Steps Foundation and a member of the Advisory Board to GEMS, a Hong Kong based private equity firm.

Mr Hawker was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008. From 1995 to 2001, he was with Westpac Banking Corporation where his roles included Group Executive of Business and Consumer Banking and General Manager of Financial Markets. Prior to this, he held a number of roles with Citibank, including Deputy Managing Director for Australia and subsequently Executive Director, Head of Derivatives, Europe. He has also been President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, board member of the Geneva Association, member of the Financial Sector Advisory Council and is the founder of the Australian Business in the Community Network.

Mr Hawker is a resident of the United Kingdom.

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 63)

Independent Voting Director – joined the Board in August 2007

Member – Board Audit Committee

Member – Board Corporate Governance Committee

Member – Board Risk Committee

Peter Kirby joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Mr Kirby was appointed as an Independent Voting Director of Macquarie Bank Limited in June 2003 and he continues to hold this position. He is also currently Chairman of DuluxGroup Limited (since July 2010) and a Director of the Beacon Foundation.

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

Mr Kirby is a resident of Victoria.

Catherine B. Livingstone, AO, BA (Hons) (Macquarie), HonDBus (Macquarie), HonDSc (Murdoch), FCA, FTSE, FAICD (age 55)

Independent Voting Director – joined the Board in August 2007

Chairman – Board Audit Committee

Member – Board Corporate Governance Committee

Member – Board Nominating Committee

Member – Board Risk Committee

Catherine Livingstone joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Ms Livingstone was appointed as an Independent Voting Director of Macquarie Bank Limited in November 2003 and she continues to hold this position. She is also currently Chairman of Telstra Corporation Limited (Director since November 2000 and Chairman since May 2009), a Director of WorleyParsons Limited (since June 2007) and Future Directions International Pty Ltd and a member of the New South Wales Innovation Council and the Royal Institution of Australia.

Ms Livingstone was the Managing Director of Cochlear Limited from 1994 to 2000. Prior to that she was the Chief Executive, Finance at Nucleus Limited and before that held a variety of finance and accounting roles including having been with chartered accountants, Price Waterhouse, for several years. Ms Livingstone was also previously Chairman of CSIRO and a Director of Goodman Fielder Limited and Rural Press Limited. Ms Livingstone was awarded the Centenary Medal in 2003 for service to Australian Society in Business Leadership and was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2002.

Ms Livingstone is a resident of New South Wales.

John R. Niland, AC, BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 70)

Independent Voting Director – joined the Board in August 2007

Member – Board Corporate Governance Committee

Member – Board Remuneration Committee

Member – Board Risk Committee

John Niland joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Dr Niland was appointed as an Independent Voting Director of Macquarie Bank Limited in February 2003 and continues to hold this position. Dr Niland is a Professor Emeritus of the University of New South Wales (UNSW) and was Vice-Chancellor and President of UNSW from 1992 to 2002. Before that he was the Dean of the Faculty of Commerce and Economics. He is currently Chairman of Campus Living Funds Management Limited and Deputy Chairman of the Board of Trustees of Singapore Management University.

Dr Niland is a former Chief Executive of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority. He has served on the Australian Universities Council, the Prime Minister's Science, Engineering and Innovation Council, the boards of the Centennial Park and Moore Park Trust, realestate.com.au Limited, St Vincent's Hospital, the Sydney Symphony Orchestra Foundation, the Sydney Olympic bid's Building Commission and the University Grants Committee of Hong Kong. He is a former President of the National Trust of Australia (NSW).

Dr Niland is a resident of New South Wales.

Directors' Report Schedule 1

for the financial year ended 31 March 2011

continued

Helen M. Nugent, AO, BA (Hons)(Qld), PhD (Qld), MBA (Harv), HonDBus (Qld) (age 62)

Independent Voting Director – joined the Board in August 2007

Chairman – Board Remuneration Committee

Member – Board Nominating Committee

Member – Board Risk Committee

Helen Nugent joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Dr Nugent was appointed as an Independent Voting Director of Macquarie Bank Limited in June 1999 and continues to hold this position. She is currently Chairman of Funds SA and a Director of Origin Energy Limited (since March 2003) and Freehills. Dr Nugent is also Deputy Chairman of the National Portrait Gallery and Chancellor of Bond University.

Previously, Dr Nugent was involved in the financial services sector as a Director of Strategy at Westpac Banking Corporation (1994 to 1999) and a Non-Executive Director of the State Bank of New South Wales (1993 to 1994) and Mercantile Mutual (1992 to 1994). In addition, she was previously Chairman of Hudson (Australia and New Zealand) and Swiss Re Life and Health (Australia) Limited and a Director of UNiTAB, Carter Holt Harvey and Australia Post. She has also been a Partner at McKinsey and Company. She has been actively involved in the arts and education. In the arts, she was formerly Deputy Chairman of the Australia Council, Chairman of the Major Performing Arts Board of the Australia Council, Chairman of the Ministerial Inquiry into the Major Performing Arts and Deputy Chairman of Opera Australia. In education, Dr Nugent was a member of the Bradley Review into Higher Education and a Professor in Management and Director of the MBA Program at the Australian Graduate School of Management.

Dr Nugent is a resident of New South Wales.

Peter H. Warne BA (Macquarie) (age 55)

Independent Voting Director – joined the Board in August 2007

Chairman – Board Risk Committee

Member - Board Audit Committee

Member - Board Corporate Governance Committee

Member - Board Remuneration Committee

Peter Warne joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Mr Warne was appointed as an Independent Voting Director of Macquarie Bank Limited in July 2007 and continues to hold this position. He is currently on the boards of other listed entities as Chairman of ALE Property Group (since September 2003) and Deputy Chairman of WHK Group Limited (Director since May 2007). Mr Warne is also Deputy Chairman of Capital Markets CRC Limited, a Director of Next Financial Limited, Securities Research Centre of Asia Pacific Limited and ASX Limited, and a member of the Advisory Board of the Australian Office of Financial Management.

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 is also a former Director of Macquarie Capital Alliance Group (February 2005 to June 2007) and a former Chairman and Director of TEYS Limited (Director from October 2007 and Chairman from July 2008 to June 2009). Mr Warne 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 in 2006 he became a Director of ASX Limited.

Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience
Dennis Leong, BSc BE (Hons) (Syd), MCom (UNSW),
CPA, FCIS

Company Secretary since 12 October 2006

Dennis Leong is an Executive Director of Macquarie and Head of the Group's Company Secretarial Division, which is responsible for the Group's company secretarial requirements, professional risks and general insurances and employee equity plans. He has had over 17 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. She has over 23 years company secretarial experience, with 24 years service at British Telecommunications PLC where, amongst other roles, she was most recently Head of Corporate Governance, Asia Pacific, until joining Macquarie in May 2007.

Nigel Donnelly BEc LLB (Hons) (Macquarie)

Assistant Company Secretary since 30 October 2008

Nigel Donnelly is a Division Director of Macquarie and has over 11 years experience as a solicitor. Nigel joined Macquarie in April 2006, and was previously a Senior Associate at Mallesons Stephen Jaques with a general corporate advisory and corporate governance focus.

Directors' Report Schedule 2

Auditor's independence declaration



Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2011, 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.

A handwritten signature in black ink, appearing to read 'DH Armstrong', is placed over the declaration text.

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
29 April 2011

Macquarie Group Limited

2011 Financial Report

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The Financial Report was authorised for issue by the Directors on 29 April 2011.
The Consolidated Entity has the power to amend and reissue the Financial Report.

Income statements

for the financial year ended 31 March 2011

	Notes	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Interest and similar income		5,304	4,591	521	453
Interest expense and similar charges		(4,029)	(3,511)	(593)	(456)
Net interest income/(expense)	2	1,275	1,080	(72)	(3)
Fee and commission income	2	3,891	3,721	—	—
Net trading income	2	1,368	1,299	—	—
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	179	(230)	—	—
Other operating income and charges	2	931	768	635	385
Net operating income		7,644	6,638	563	382
Employment expenses	2	(3,890)	(3,101)	(3)	(3)
Brokerage and commission expenses	2	(785)	(645)	—	(5)
Occupancy expenses	2	(483)	(482)	—	—
Non-salary technology expenses	2	(316)	(283)	—	—
Other operating expenses	2	(899)	(833)	(14)	(20)
Total operating expenses		(6,373)	(5,344)	(17)	(28)
Operating profit before income tax		1,271	1,294	546	354
Income tax (expense)/benefit	4	(282)	(201)	27	9
Profit after income tax		989	1,093	573	363
Profit attributable to non-controlling interests:					
Macquarie Income Preferred Securities	5	(4)	(8)	—	—
Macquarie Income Securities	5	(26)	(21)	—	—
Other non-controlling interests		(3)	(14)	—	—
Profit attributable to non-controlling interests		(33)	(43)	—	—
Profit attributable to ordinary equity holders of Macquarie Group Limited		956	1,050	573	363
		Cents per share			
Basic earnings per share	6	282.5	320.2		
Diluted earnings per share	6	275.9	317.4		

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

Statements of comprehensive income for the financial year ended 31 March 2011

	Notes	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Profit after income tax for the financial year		989	1,093	573	363
Other comprehensive income/(expense):					
Available for sale investments, net of tax	32	256	129	—	—
Cash flow hedges, net of tax	32	2	178	—	—
Share of other comprehensive income of associates and joint ventures, net of tax	32	27	36	—	—
Exchange differences on translation of foreign operations, net of tax		(503)	(242)	—	—
Total other comprehensive (expense)/income for the financial year		(218)	101	—	—
Total comprehensive income for the financial year		771	1,194	573	363
Total comprehensive income/(expense) for the financial year is attributable to:					
Ordinary equity holders of Macquarie Group Limited		741	1,107	573	363
Macquarie Income Preferred Securities holders		—	73	—	—
Macquarie Income Securities holders		26	21	—	—
Other non-controlling interests		4	(7)	—	—
Total comprehensive income for the financial year		771	1,194	573	363

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

Statements of financial position

as at 31 March 2011

	Notes	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Assets					
Due from financial institutions	7	9,817	8,251	—	—
Cash collateral on securities borrowed and reverse repurchase agreements	8	8,790	7,149	—	—
Trading portfolio assets	9	14,898	12,138	—	—
Loan assets held at amortised cost	10	46,016	44,267	—	—
Other financial assets at fair value through profit or loss	12	11,668	9,172	—	—
Derivative financial instruments – positive values	40	21,185	21,561	—	—
Other assets	13	12,646	11,801	3	104
Investment securities available for sale	14	17,051	18,221	—	—
Intangible assets	15	1,317	1,456	—	—
Life investment contracts and other unitholder investment assets	16	5,059	4,846	—	—
Due from subsidiaries	34	—	—	9,530	11,643
Interests in associates and joint ventures accounted for using the equity method	17	2,790	3,927	—	—
Property, plant and equipment	18	5,007	1,900	—	—
Investments in subsidiaries	19	—	—	13,605	13,322
Deferred income tax assets	20	1,245	1,124	183	56
Non-current assets and assets of disposal groups classified as held for sale	21	79	127	—	—
Total assets		157,568	145,940	23,321	25,125
Liabilities					
Due to financial institutions	22	7,810	9,927	4,451	6,922
Cash collateral on securities lent and repurchase agreements	23	6,617	7,490	—	—
Trading portfolio liabilities	24	5,808	5,432	—	—
Derivative financial instruments – negative values	40	21,572	21,706	—	—
Deposits		35,338	22,484	52	54
Debt issued at amortised cost	25	41,177	42,614	4,116	3,154
Other financial liabilities at fair value through profit or loss	26	4,339	4,413	—	—
Other liabilities	27	14,327	12,679	—	—
Current tax liabilities		197	119	92	9
Life investment contracts and other unitholder liabilities		5,055	4,864	—	—
Due to subsidiaries	34	—	—	1,951	2,357
Provisions	28	215	191	3	—
Deferred income tax liabilities	20	287	235	—	—
Liabilities of disposal groups classified as held for sale	21	—	9	—	—
Total liabilities excluding loan capital		142,742	132,163	10,665	12,496
Loan capital					
Macquarie Convertible Preference Securities		595	593	—	—
Subordinated debt at amortised cost		1,832	916	—	—
Subordinated debt at fair value through profit or loss		467	499	—	—
Total loan capital	30	2,894	2,008	—	—
Total liabilities		145,636	134,171	10,665	12,496
Net assets		11,932	11,769	12,656	12,629

Notes	Consolidated	Consolidated	Company	Company
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Equity				
Contributed equity				
Ordinary share capital	31	7,140	6,990	9,944
Treasury shares	31	(731)	(443)	(726)
Exchangeable shares	31	104	137	—
Reserves	32	310	280	604
Retained earnings	32	4,581	4,268	2,834
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		11,404	11,232	12,656
Total equity		11,932	11,769	12,656
Non-controlling interests				
Macquarie Income Preferred Securities	32	63	67	—
Macquarie Income Securities	32	391	391	—
Other non-controlling interests	32	74	79	—
Total equity		11,932	11,769	12,656
<i>The above statements of financial position should be read in conjunction with the accompanying notes.</i>				

Statements of changes in equity

for the financial year ended 31 March 2011

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
Consolidated							
Balance at 1 April 2009		5,020	17	3,627	8,664	896	9,560
Total comprehensive income for the financial year		–	57	1,050	1,107	87	1,194
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	2,066	–	–	2,066	–	2,066
Issue of shares to MEREP Trust	31	(438)	–	–	(438)	–	(438)
Dividends paid	5	–	–	(409)	(409)	–	(409)
Non-controlling interests:							
Distributions of equity, net of transaction costs	32	–	–	–	–	(7)	(7)
Cancellation of Macquarie Income Preferred Securities	32	–	–	–	–	(396)	(396)
Distributions paid or provided		–	–	–	–	(43)	(43)
Other equity movements:							
Net movement on exchangeable shares	31	21	–	–	21	–	21
Share based payments		18	206	–	224	–	224
Net purchase of treasury shares	31	(3)	–	–	(3)	–	(3)
		1,664	206	(409)	1,461	(446)	1,015
Balance at 31 March 2010		6,684	280	4,268	11,232	537	11,769
Total comprehensive (expense)/income for the financial year		–	(215)	956	741	30	771
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	117	–	–	117	–	117
Issue of shares to MEREP Trust		(19)	–	–	(19)	–	(19)
Purchase of shares by MEREP Trust		(269)	–	–	(269)	–	(269)
Dividends paid	5	–	–	(643)	(643)	–	(643)
Non-controlling interests:							
Distributions of equity, net of transaction costs	32	–	–	–	–	(6)	(6)
Distributions paid or provided		–	–	–	–	(33)	(33)
Other equity movements:							
Net movement on exchangeable shares	31	(33)	–	–	(33)	–	(33)
Share based payments	33	245	–	–	278	–	278
		(171)	245	(643)	(569)	(39)	(608)
Balance at 31 March 2011		6,513	310	4,581	11,404	528	11,932

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
Company							
Balance at 1 April 2009		7,729	153	2,946	10,828	–	10,828
Total comprehensive income for the financial year		–	–	363	363	–	363
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	2,059	–	–	2,059	–	2,059
Issue of shares to MEREP Trust	31	(438)	–	–	(438)	–	(438)
Dividends paid	5	–	–	(407)	(407)	–	(407)
Other equity movements:							
Share based payments		18	206	–	224	–	224
		1,639	206	(407)	1,438	–	1,438
Balance at 31 March 2010		9,368	359	2,902	12,629	–	12,629
Total comprehensive income for the financial year		–	–	573	573	–	573
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	105	–	–	105	–	105
Issue of shares to MEREP Trust		(19)	–	–	(19)	–	(19)
Purchase of shares by MEREP Trust		(269)	–	–	(269)	–	(269)
Dividends paid	5	–	–	(641)	(641)	–	(641)
Other equity movements:							
Share based payments		33	245	–	278	–	278
		(150)	245	(641)	(546)	–	(546)
Balance at 31 March 2011		9,218	604	2,834	12,656	–	12,656

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 2011

Notes	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Cash flows from operating activities				
Interest received	5,097	4,275	521	453
Interest and other costs of finance paid	(4,060)	(3,672)	(594)	(461)
Dividends and distributions received	366	572	635	380
Fees and other non-interest income received/(paid)	4,855	4,470	—	(5)
Fees and commissions paid	(771)	(624)	—	—
Net (payments for)/receipts from trading portfolio assets and other financial assets/liabilities	(3,857)	2,626	—	—
Payments to suppliers	(1,489)	(1,300)	(8)	(12)
Employment expenses paid	(3,724)	(2,862)	(3)	(3)
Income tax paid	(204)	(288)	(21)	(62)
Life investment contract income/(expense)	126	(137)	—	—
Life investment contract premiums received and other unitholder contributions	2,575	2,295	—	—
Life investment contract payments	(2,411)	(3,226)	—	—
Net loan assets (granted)/repaid	(1,550)	336	2,548	404
Loan facility repaid to a subsidiary	—	—	(512)	(2,551)
Recovery of loans previously written off	12	19	—	—
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings	7,414	(8,443)	(1,513)	2,637
Net cash flows from/(used in) operating activities	33	2,379	(5,959)	1,053
				780
Cash flows from investing activities				
Net payments for financial assets available for sale and at fair value through profit or loss	(721)	(8,141)	—	—
Payments for interests in associates	(522)	(887)	—	—
Proceeds from the disposal of associates	246	622	—	—
Payments for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired	(22)	—	—	—
Proceeds from the disposal of non-current assets and disposal groups classified as held for sale, net of cash disposed	—	12	—	—
Net proceeds from/(payments for) the acquisition of subsidiaries, excluding disposal groups, net of cash acquired	1,378	(309)	—	—
Proceeds from the disposal of subsidiaries and businesses excluding disposal groups, net of cash deconsolidated	92	437	—	—
Payments for life investment contracts and other unitholder investment assets	(6,371)	(5,717)	—	—
Proceeds from the disposal of life investment contracts and other unitholder investment assets	6,145	6,850	—	—
Payments for property, plant and equipment, leased assets, and intangible assets	(2,130)	(398)	—	—
Proceeds from the disposal of management rights	14	428	—	—
Injection of capital to a subsidiary	—	—	(770)	(1,805)
Return of capital from a subsidiary	—	—	550	—
Net cash flows used in investing activities	(1,891)	(7,103)	(220)	(1,805)

Notes	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Cash flows from financing activities				
Proceeds from the issue of ordinary shares	1	1,312	1	1,312
Payments to non-controlling interests	(4)	(238)	–	–
Proceeds from/(repayment) of subordinated debt	932	(406)	–	–
Dividends and distributions paid	(598)	(328)	(565)	(287)
Financing of treasury shares	(269)	–	(269)	–
Net cash flows from/(used in) financing activities	62	340	(833)	1,025
Net increase/(decrease) in cash and cash equivalents				
	550	(12,722)	–	–
Cash and cash equivalents at the beginning of the financial year	11,773	24,495	–	–
Cash and cash equivalents at the end of the financial year				
	33	12,323	11,773	–

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 2011

Note 1

Summary of significant accounting policies

(i) Basis of preparation

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

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

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 43);
- impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures and held for sale investments (notes 1(xii), 1(xiii), 11 and 41.1);
- acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 1(ii), 1(xii), 17, 21 and 45);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of Special Purpose Entities (SPEs) (notes 1(ii), 10 and 25);
- recoverability of deferred tax assets and measurement of current and deferred income tax liabilities (notes 1(vii), 4 and 20); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvi) and 15).

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

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

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

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

The Company's and Consolidated Entity's assessment of the impact of the key new Accounting Standards, amendments to Accounting Standards and Interpretations is set out below:

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

AASB 2010-3 is effective for annual reporting periods beginning on or after 1 July 2010 and confirms that:

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

The Consolidated Entity will apply the amendments prospectively from 1 April 2011. Initial application is not expected to result in any material impact.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

AASB 2010-4 is effective for annual reporting periods beginning on or after 1 January 2011 and makes amendments to various disclosure requirements relating to AASB 7 *Financial Instruments: Disclosures*, AASB 101 *Presentation of Financial Statements* and AASB 134 *Interim Financial Reporting*. The Consolidated Entity will first apply the Standard in the financial year beginning 1 April 2011. Initial application is not expected to result in any material impact.

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

AASB 2010-6 was issued by the AASB in November 2010 and is effective for annual reporting periods beginning on or after 1 July 2011. The Standard adds and amends disclosure requirements about transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them. The Consolidated Entity will first apply the Standard in the financial year beginning 1 April 2012. Systems are yet to be put in place to capture all the necessary information therefore it is not possible to disclose the impact of initial application on the Consolidated Entity's financial statement disclosures.

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

In December 2010, the AASB re-issued AASB 9 *Financial Instruments*, which is effective for annual reporting periods beginning on or after 1 January 2013. Early adoption is permitted if all the requirements are applied at the same time. The revised AASB 9 includes the classification and measurement requirements for financial liabilities, and the recognition and derecognition requirements for financial instruments, in addition to the classification and measurement requirements for financial assets that appeared in the December 2009 version of the Standard.

Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value.

Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity, but upon realisation those accumulated changes in value are not recycled to the income statement. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement. The Consolidated Entity is currently assessing the impact of the new Standard, and it is likely that some financial assets:

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

In respect of financial liabilities, the change in fair value (for financial liabilities designated at fair value through profit or loss) due to changes in an entity's own credit risk is to be presented in other comprehensive income, unless such presentation would create an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of changes in the credit risk of the liability) are presented in profit or loss. All other key requirements for classification and measurement of financial liabilities have been carried forward unamended from AASB 139 *Financial Instruments: Recognition and Measurement*. The recognition and derecognition requirements in AASB 139 have also been retained and relocated to the revised AASB 9 unamended. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2013. The impact of AASB 9 on the Consolidated Entity's financial statements on initial application has not yet been assessed.

(ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including SPEs) over which the Company has the power to govern (directly or indirectly) decision-making in relation to financial and operating policies, so as to require that entity to conform to the Company's objectives. The effects of all transactions between entities in the Consolidated Entity are eliminated in full. NCI in the results and equity of subsidiaries, where the Company owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement and consolidated statement of financial position, respectively. Where control of an entity was obtained during the financial year, its results are included in the consolidated income statement from the date on which control commenced. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 1

Summary of significant accounting policies continued

ii) Principles of consolidation continued

Subsidiaries continued

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

Impairment of subsidiaries

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

Securitisations

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

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

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

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

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

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

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

(iii) Business combinations

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

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

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

As a result of applying the revised AASB 3 from 1 April 2010, the definition of a business is now modified: a) to require inputs and processes to always exist, but not necessarily include all inputs or processes that the seller used; b) to clarify the meanings of inputs and processes; and c) for the integrated activities and assets to only be capable of being conducted and managed for the purpose. Distinguishing between whether assets or a business is acquired therefore involves more 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.

Application of the revised Standards in the current period has resulted in the recognition of a gain in the income statement as a result of the re-measurement of the Consolidated Entity's retained ownership interests to fair value, on the loss of control of investments in subsidiaries and the loss of significant influence on investments in associates. These retained interests have been accounted for as available for sale investments.

(iv) Segment reporting

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

(v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Subsidiaries and other entities

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

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 1

Summary of significant accounting policies continued

(vi) Revenue recognition

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

Interest income

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

Fee and commission income

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

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

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

Net trading income

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

Dividends and distributions

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

(vii) Income tax

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

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

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.

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

(ix) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see note 43). 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 remeasured to their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models, as appropriate. Movements in the carrying amounts of derivatives are recognised in the income statement in net trading income, unless the derivative meets the requirements for hedge accounting.

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 1

Summary of significant accounting policies continued

(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 equity 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 40. Movements in the cash flow hedging reserve in equity are shown in note 32.

(xii) Investments and other financial assets

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

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

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

Investment securities available for sale

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

(xii) Investments and other financial assets continued**Investment securities available for sale continued**

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

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

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

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 disposal groups classified as held for sale are presented separately on the face of the statement of financial position.

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.

(xiii) Impairment**Loan assets held at amortised cost**

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

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

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

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

Investment securities available for sale

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 1

Summary of significant accounting policies continued

(xiii) Impairment continued

Investment securities available for sale 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 equity is removed from equity and recognised in the income statement.

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

Interests in associates and joint ventures

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

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

(xiv) Life insurance business

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

Disclosure

The consolidated financial statements include the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Company in accordance with AASB 139 *Financial Instruments*:

Recognition and Measurement, and AASB 1038 *Life Insurance Contracts* which apply to investment contracts and assets backing insurance liabilities, respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment assets

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

Restriction on assets

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

Policy liabilities

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

(xv) Property, plant and equipment

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

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

Furniture and fittings	10 to 20 per cent
Leasehold improvements ¹	20 per cent
Communication equipment	33 per cent
Computer equipment	33 to 50 per cent
Infrastructure assets	5 to 20 per cent
Aviation	3 to 4 per cent
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 due to an adjustment to its useful life, residual value or an impairment, the carrying amount is written down immediately to its recoverable amount. Adjustments arising from such items and on disposal of property, plant and equipment are recognised in the income statement.

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

(xvi) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

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

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

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

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

Software

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

Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. For intangible assets that have a finite useful life, an assessment is made at each reporting date

for indications of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(xvii) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

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

(xviii) Provisions

Employee benefits

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 1

Summary of significant accounting policies continued

(xviii) Provisions continued

Employee benefits continued

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.

(xix) 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.

(xx) 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 36. The Consolidated Entity recognises an expense (and equity reserve) for its shares and options granted to employees. The shares and options are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

Performance hurdles attached to options, and Performance Share Units (PSUs) under the MEREP, that are issued to the Executive Officers 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. The following key assumptions were adopted for grants made in the prior financial year:

- risk free interest rate: 6.77 per cent (weighted average);
- expected life of options: four years;
- volatility of share price: 24 per cent; and
- dividend yield: 3.47 per cent per annum.

In December 2009, the Consolidated Entity established a new equity plan, MEREP. Restricted Share Units (RSUs)/Deferred Share Units (DSUs) and PSUs for Executive Committee members, have been granted in the current year in respect of 2010. The fair value of each of these grants is estimated using the Company's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- risk free interest rate: 5.20 per cent (weighted average);
- expected life of PSU: four years; and
- dividend yield: 3.47 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 2011 (and for PSUs, also incorporates a risk free interest rate of 5.71 per cent; an expected life of four years; and a dividend yield of 5.20 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 to be granted when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

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

The Consolidated Entity annually revises its estimates of the number of shares (including those delivered through MEREP) and options that are expected to vest. Where appropriate, the impact of revised estimates are reflected in the income statement over the remaining vesting period, with a corresponding adjustment to the share based payments reserve in 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.

(xxi) Cash and cash equivalents

Cash and cash equivalents comprise:

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

(xxii) 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 recognised as unearned interest income. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.

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

Purchased assets, where the Consolidated Entity is the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 3 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 under operating leases are included in property, plant and equipment.

(xxiii) Offsetting financial instruments

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

(xxiv) Loan capital

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

(xxv) Contributed equity

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

(xxvi) Changes in ownership interests

From 1 April 2010, 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. In prior years, previously held interests were not revalued for such transactions.

Similarly, from 1 April 2010, 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. In prior years, retained ownership interests were not revalued for such transactions.

From 1 April 2010, when increasing or decreasing the ownership interests of a subsidiary that remains a subsidiary afterwards, the consideration exchanged is recognised directly in equity. In prior years, transactions with NCI were recognised using the parent-entity approach, which resulted in a gain recognised in the income statement when securities held by NCI were acquired by the Consolidated Entity at a price less than their carrying amount.

(xxvii) Comparatives

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

(xxviii) Rounding of amounts

The Company is of a kind referred to in ASIC Class Order 98/0100 (as amended), relating to the rounding off of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Note 2				
Profit for the financial year				
Net interest income				
Interest and similar income received/receivable:				
Other entities	5,304	4,591	–	–
Subsidiaries (note 34)	–	–	521	453
Interest expense and similar charges paid/payable:				
Other entities	(4,029)	(3,511)	(502)	(363)
Subsidiaries (note 34)	–	–	(91)	(93)
Net interest income/(expense)	1,275	1,080	(72)	(3)
Fee and commission income				
Base fees	950	926	–	–
Performance fees	36	57	–	–
Mergers and acquisitions, advisory and underwriting fees	931	1,085	–	–
Brokerage and commissions	1,137	1,077	–	–
Other fee and commission income	754	532	–	–
Income from life investment contracts and other unitholder investment assets (note 16)	83	44	–	–
Total fee and commission income	3,891	3,721	–	–
Net trading income¹				
Equities	392	590	–	–
Commodities	553	665	–	–
Foreign exchange products	192	145	–	–
Interest rate products	231	(101)	–	–
Net trading income	1,368	1,299	–	–
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method				
	179	(230)	–	–

¹ Included in net trading income are fair value gains of \$259 million (2010: \$288 million loss) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes \$9 million loss (2010: \$255 million loss) as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met – refer to note 1(xi) – Summary of significant accounting policies.

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Note 2				
Profit for the financial year continued				
Other operating income and charges				
Net gains on sale of investment securities available for sale	229	96	—	—
Impairment charge on investment securities available for sale	(38)	(77)	—	—
Net gains on sale of associates (including associates held for sale) and joint ventures	19	50	—	—
Impairment charge on investments in associates and joint ventures ¹	(69)	(357)	—	—
Impairment charge on disposal groups held for sale	(16)	—	—	—
Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held for sale	96	393	—	—
Gain on re-measurement of retained investments ²	129	—	—	—
Impairment charge on non-financial assets	(7)	(36)	—	—
Sale of management rights ³	14	428	—	—
Gain on repurchase of subordinated debt	—	55	—	—
Net operating lease income ⁴	243	138	—	—
Dividends/distributions received/receivable:				
Investment securities available for sale	126	22	—	—
Subsidiaries (note 34)	—	—	635	380
Collective allowance for credit losses written back during the financial year (note 10)	5	2	—	—
Specific provisions:				
Loan assets provided for during the financial year (note 10)	(94)	(177)	—	—
Other receivables provided for during the financial year	(9)	(45)	—	—
Recovery of loans previously provided for (note 10)	16	37	—	—
Recovery of other receivables previously provided for	13	17	—	—
Loan losses written off	(71)	(69)	—	—
Recovery of loans previously written off	12	19	—	—
Other income	333	272	—	5
Total other operating income and charges	931	768	635	385
Net operating income	7,644	6,638	563	382

¹ Includes impairment reversals of \$10 million (2010: \$43 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 on investments in associates.

³ Sale of management rights to Macquarie Airports, Macquarie Media Group and Macquarie Infrastructure Group as part of the internalisation of the management of these funds in the year ended 31 March 2010.

⁴ Includes rental income of \$401 million (2010: \$370 million) less depreciation of \$158 million (2010: \$232 million) in relation to operating leases where the Consolidated Entity is the lessor.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Note 2				
Profit for the financial year continued				
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	(3,269)	(2,595)	(3)	(3)
Share based payments	(306)	(224)	–	–
Provision for annual leave	(29)	(21)	–	–
Provision for long service leave	(8)	(8)	–	–
Total compensation expense	(3,612)	(2,848)	(3)	(3)
Other employment expenses including on-costs, staff procurement and staff training	(278)	(253)	–	–
Total employment expenses	(3,890)	(3,101)	(3)	(3)
Brokerage and commission expenses				
Brokerage expenses	(583)	(501)	–	–
Other fee and commission expenses	(202)	(144)	–	(5)
Total brokerage and commission expenses	(785)	(645)	–	(5)
Occupancy expenses				
Operating lease rentals	(295)	(287)	–	–
Depreciation: furniture, fittings and leasehold improvements (note 18)	(118)	(124)	–	–
Other occupancy expenses	(70)	(71)	–	–
Total occupancy expenses	(483)	(482)	–	–
Non-salary technology expenses				
Information services	(145)	(128)	–	–
Depreciation: computer equipment (note 18)	(50)	(50)	–	–
Other non-salary technology expenses	(121)	(105)	–	–
Total non-salary technology expenses	(316)	(283)	–	–
Other operating expenses				
Professional fees	(276)	(265)	–	–
Auditor's remuneration (note 44)	(20)	(22)	–	(1)
Travel and entertainment expenses	(184)	(160)	–	–
Advertising and promotional expenses	(72)	(51)	–	–
Communication expenses	(49)	(41)	–	–
Amortisation of intangibles	(74)	(32)	–	–
Depreciation: communication equipment (note 18)	(6)	(7)	–	–
Other expenses	(218)	(255)	(14)	(19)
Total other operating expenses	(899)	(833)	(14)	(20)
Total operating expenses	(6,373)	(5,344)	(17)	(28)

Note 3

Segment reporting

(i) Operating segments

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

Since 31 March 2010, there have been the following restructures of operating groups and divisions:

- Macquarie Infrastructure and Real Assets (formerly Macquarie Capital Funds) – this division of Macquarie Capital was transferred to Macquarie Funds Group.
- Real Estate Structured Finance – this division of Real Estate Banking Division was transferred to Corporate and Asset Finance.

All restructures are effective from 1 April 2010. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

Macquarie 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 Advisers.

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

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.

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 or foreign exchange related institutional trading, marketing, lending, clearing or platform provision.

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.

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Macquarie Securities Group \$m	Macquarie Capital \$m	Macquarie Funds Group \$m
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:			
Revenues from external customers	1,423	1,309	1,690
Inter-segmental revenue/(expense) ¹	4	(251)	(142)
Interest revenue	250	41	186
Interest expense	(127)	(64)	(58)
Depreciation and amortisation	(10)	(92)	(26)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	1	47	112
Reportable segment profit/(loss)	175	281	602
Reportable segment assets	25,583	5,742	12,678
Revenues from external customers	1,515	1,439	2,428
Inter-segmental revenue/(expense) ¹	132	(260)	(139)
Interest revenue	235	70	167
Interest expense	(167)	(75)	(34)
Depreciation and amortisation	(16)	(73)	(23)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	(22)	(170)
Reportable segment profit/(loss)	580	(56)	813
Reportable segment assets	20,926	4,076	11,113

¹ Internal reporting systems do not enable the separation of inter-segmental revenues and expenses. The net position is disclosed above. The key inter-segmental item is internal interest and funding costs charged to businesses for funding of their business net assets.

Fixed Income, Currencies and Commodities \$m	Corporate and Asset Finance \$m	Banking and Financial Services Group \$m	Real Estate Banking Division \$m	Corporate \$m	Total \$m
Consolidated 2011					
1,984	1,571	2,530	85	1,410	12,002
(225)	(563)	764	(37)	450	–
652	1,453	1,587	16	1,119	5,304
(362)	(187)	(1,658)	–	(1,573)	(4,029)
(20)	(108)	(37)	–	(113)	(406)
15	9	1	(5)	(1)	179
575	501	275	(42)	(1,411)	956
43,154	18,315	28,604	448	23,044	157,568
Consolidated 2010					
1,977	1,100	2,233	113	923	11,728
(74)	(337)	122	(63)	619	–
651	1,066	1,494	13	895	4,591
(383)	(185)	(1,054)	(4)	(1,609)	(3,511)
(109)	(109)	(32)	(2)	(81)	(445)
11	(5)	2	(41)	(7)	(230)
827	255	261	(148)	(1,482)	1,050
42,388	15,539	29,843	610	21,445	145,940

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 3

Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management \$m	Financial Markets \$m	Capital Markets \$m	Lending \$m	Total \$m
Consolidated 2011					
Revenues from external customers	2,372	3,478	2,494	3,658	12,002
Consolidated 2010					
Revenues from external customers	3,145	3,417	2,534	2,632	11,728

(iii) Geographical areas

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

	Revenues from external customers \$m	Non-current assets ¹ \$m
Consolidated 2011		
Australia	6,445	2,194
Asia Pacific	928	178
Europe, Middle East and Africa	1,906	4,361
Americas	2,723	2,887
Total	12,002	9,620
Consolidated 2010		
Australia	6,438	3,844
Asia Pacific	1,436	186
Europe, Middle East and Africa	1,859	738
Americas	1,995	3,087
Total	11,728	7,855

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 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 4

Income tax expense

(i) Income tax (expense)/benefit

Current tax (expense)/benefit	(379)	(154)	(100)	321
Deferred tax benefit/(expense)	97	(47)	127	(312)
Total	(282)	(201)	27	9
Deferred income tax benefit/(expense) included in income tax (expense)/benefit comprises:				
Increase/(decrease) in deferred tax assets	30	184	127	(312)
Decrease/(increase) in deferred tax liabilities	67	(231)	—	—
Total	97	(47)	127	(312)

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

Prima facie income tax expense on operating profit ¹	(381)	(388)	(164)	(106)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	174	257	2	2
Distribution provided on Macquarie Income Preferred Securities and related distributions	1	3	—	—
Share-based payments expense	(22)	(34)	(1)	—
Other items	(54)	(39)	—	—
Intra-group dividend	—	—	190	113
Total income tax (expense)/benefit	(282)	(201)	27	9

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

Available for sale reserves	(104)	(3)	—	—
Cash flow hedges	(3)	(77)	—	—
Foreign currency translation reserve	91	(151)	—	—
Share of other comprehensive income of associates and joint ventures	(12)	(15)	—	—
Total tax expense relating to items of other comprehensive income	(28)	(246)	—	—

¹ Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2010: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Note 5				
Dividends and distributions paid or provided for				
(i) Dividends paid or provided for				
Ordinary share capital and exchangeable shares				
Interim dividend paid (\$0.86 (2010: \$0.86) per share) ¹	296	287	295	286
2010 final dividend paid (\$1.00 (2009: \$0.40) per share) ²	344	122	343	121
Dividends provided for ³	3	–	3	–
Total dividends paid or provided for (note 32)	643	409	641	407

¹ Interim dividend paid by the Consolidated Entity includes \$1 million (2010: \$1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. as described in note 31 – Contributed equity.

² Final dividend paid by the Consolidated Entity includes \$1 million (2010: \$1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. as described in note 31 – Contributed equity.

³ Dividends provided for by the Consolidated Entity relates to the dividend on the exchangeable shares issued as consideration for the acquisition of Tristone Capital Global Inc. as described in note 31 – Contributed equity. The dividends are payable within 60 days following the second anniversary of the closing date of acquisition.

The final dividend paid during the financial year was unfranked (full year to 31 March 2010: 60 per cent franked at 30 per cent corporate tax rate). The interim dividend paid during the financial year was unfranked (half year to 31 March 2010: unfranked). The dividends paid to holders of exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains activated. 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 fully paid ordinary shares issued pursuant to the DRP are included in note 31 – 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 2011 final dividend of \$1.00 per fully paid ordinary share, unfranked. The aggregate amount of the proposed dividend expected to be paid on 4 July 2011 from retained profits at 31 March 2011, but not recognised as a liability at the end of the financial year, is \$347 million (including \$2 million to be paid by a subsidiary to the holders of the exchangeable shares – refer to note 31 – 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 2011.

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Dividend per ordinary share				
Cash dividends per ordinary share (distribution of current year profits)	\$1.86	\$1.86	\$1.86	\$1.86
	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Franking credits available for the subsequent financial year at a corporate tax rate of 30 per cent (2010: 30 per cent)	49	15	49	15

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 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

Macquarie Income Preferred Securities

Distributions paid (net of distributions previously provided for)	2	6	-	-
Distributions provided for	2	2	-	-
Total distributions paid or provided for (note 32)	4	8	-	-

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Accordingly, the distributions paid or provided for in respect of the MIPS are recorded as movements in NCI, as disclosed in note 32 – Reserves, retained earnings and non-control interests. Macquarie Bank Limited (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. Refer to note 32 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

Macquarie Income Securities

Distributions paid (net of distributions previously provided for)	20	16	-	-
Distributions provided for	6	5	-	-
Total distributions paid or provided for	26	21	-	-

The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Accordingly, the distributions paid or provided for in respect of the MIS are recorded as movements in NCI, as disclosed in note 32 – Reserves, retained earnings and non-controlling interests. No dividends are payable under the preference shares until MBL exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion. Refer to note 32 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

	Consolidated 2011	Consolidated 2010
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Note 6

Earnings per share

	Cents per share	
Basic earnings per share	282.5	320.2
Diluted earnings per share	275.9	317.4
Reconciliation of earnings used in the calculation of basic and diluted earnings per share		
Profit after income tax	\$989	\$1,093
Profit attributable to non-controlling interests:		
Macquarie Income Preferred Securities	(4)	(8)
Macquarie Income Securities	(26)	(21)
Other non-controlling interests	(3)	(14)
Total earnings used in the calculation of basic earnings per share	956	1,050
Add back adjusted interest expense on Macquarie Convertible Preference Securities	35	32
Total earnings used in the calculation of diluted earnings per share	991	1,082

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Consolidated 2011	Consolidated 2010
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Note 6

Earnings per share continued

	Number of shares	
Total weighted average number of ordinary shares used in the calculation of basic earnings per share	338,359,374	327,908,104
Weighted average number of shares used in the calculation of diluted earnings per share	338,359,374	327,908,104
Weighted average fully paid ordinary shares	338,359,374	327,908,104
Potential ordinary shares:		
Weighted average options	158,315	268,277
Weighted average MERP awards	3,717,229	275,888
Weighted average retention securities and options	205,609	153,375
Macquarie Convertible Preference Securities	16,808,205	12,237,648
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	359,248,732	340,843,292

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 issue price, which is equivalent to the fair value of the options granted, and exercise price used in this assessment incorporate both the amounts recognised as an expense up to the reporting date as well as the fair value of options yet to be recognised as an expense in the future.

Included in the balance of weighted average options are 21,720 (2010: 85,318) options that were converted, lapsed or cancelled during the period. There are a further 30,452,745 (2010: 42,643,151) 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 2011 and consequently, they are not considered to be dilutive.

The Company has suspended new offers under the MGESOP under remuneration arrangements which were the subject of shareholder approvals obtained at a General Meeting of Macquarie Group Limited (MGL) in December 2009. The last grant of options under the MGESOP was on 8 December 2009. Currently the Company 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 MERP. Awards granted under MERP 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 shares are 469,059 (2010: nil) MERP awards that were converted, lapsed or cancelled during the period. As at 31 March 2011, a further 3,847,042 (2010: nil) MERP awards have not been included in the balance of weighted average awards on the basis that they are not considered to be dilutive.

Exchangeable shares

The exchangeable shares on issue (refer to note 31 – 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.

Macquarie Convertible Preference Securities

Macquarie Convertible Preference Securities (Macquarie CPS) (refer to note 30 – 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.

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 7

Due from financial institutions

Cash at bank ¹	5,497	3,572	-	-
Overnight cash at bank ²	2,920	3,046	-	-
Other loans to banks	1,155	1,207	-	-
Due from clearing houses ³	245	426	-	-
Total due from financial institutions	9,817	8,251	-	-

¹ Included within this balance is \$137 million (2010: \$13 million) provided as security over payables to other financial institutions.

² Included within this balance is \$6 million (2010: \$126 million) provided as security over payables.

³ Included within this balance is \$nil (2010: \$9 million) provided as security over payables.

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

Note 8

Cash collateral on securities borrowed and reverse repurchase agreements

Governments ¹	43	28	-	-
Financial institutions	8,691	7,061	-	-
Other	56	60	-	-
Total cash collateral on securities borrowed and reverse repurchase agreements	8,790	7,149	-	-

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

The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2011 is \$9,038 million (2010: \$7,293 million). Under certain transactions, the Consolidated Entity is allowed to resell or repledge the collateral held.

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

Note 9

Trading portfolio assets

Equities ¹				
Listed	6,771	5,212	-	-
Unlisted	71	28	-	-
Corporate bonds	2,915	2,699	-	-
Commodities	2,002	131	-	-
Commonwealth government bonds ¹	1,818	2,455	-	-
Foreign government bonds ¹	517	305	-	-
Promissory notes	508	1	-	-
Other government securities	197	1,063	-	-
Treasury notes	58	73	-	-
Bank bills	40	89	-	-
Certificates of deposit ¹	1	82	-	-
Total trading portfolio assets²	14,898	12,138	-	-

¹ Included within these balances are assets provided as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is \$8 million (2010: \$200 million).

² Included within this balance are trading assets of \$3,779 million (2010: \$4,403 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.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 10

Loan assets held at amortised cost

Due from clearing houses	1,894	2,288	–	–
Due from governments ¹	593	336	–	–
Due from other entities				
Other loans and advances	39,931	38,482	–	–
Less specific provisions for impairment	(332)	(347)	–	–
	39,599	38,135	–	–
Lease receivables	4,159	3,742	–	–
Less specific provisions for impairment	(2)	(5)	–	–
Total due from other entities	43,756	41,872	–	–
Total loan assets before collective allowance for credit losses	46,243	44,496	–	–
Less collective allowance for credit losses	(227)	(229)	–	–
Total loan assets held at amortised cost^{2,3}	46,016	44,267	–	–

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

² Included within this balance are loans of \$13,390 million (2010: \$15,998 million) held by consolidated SPEs, which are available as security to note holders and debt providers.

³ Included within this balance are other loans of \$658 million (2010: \$710 million) provided as security over issued notes and payables to other external investors and financial institutions.

Of the above amounts, \$11,716 million (2010: \$11,379 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Specific provisions for impairment

Balance at the beginning of the financial year	352	431	–	–
Provided for during the financial year (note 2)	94	177	–	–
Loan assets written off, previously provided for	(79)	(143)	–	–
Recovery of loans previously provided for (note 2)	(16)	(37)	–	–
Attributable to foreign currency translation	(17)	(76)	–	–
Balance at the end of the financial year	334	352	–	–
Specific provisions as a percentage of total gross loan assets	0.72%	0.78%	–	–

Collective allowance for credit losses

Balance at the beginning of the financial year	229	225	–	–
Written back during the financial year (note 2)	(5)	(2)	–	–
Loan assets written off, previously provided for	(5)	–	–	–
Attributable to acquisitions during the financial year	9	11	–	–
Attributable to foreign currency translation	(1)	(5)	–	–
Balance at the end of the financial year	227	229	–	–

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

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 11

Impaired financial assets

Impaired debt investment securities available for sale before specific provisions for impairment	117	143	–	–
Less specific provisions for impairment	(86)	(115)	–	–
Debt investment securities available for sale after specific provisions for impairment	31	28	–	–
Impaired loan assets and other financial assets with specific provisions for impairment	792	1,090	–	–
Less specific provisions for impairment	(415)	(443)	–	–
Loan assets and other financial assets after specific provisions for impairment	377	647	–	–
Total net impaired assets	408	675	–	–

Note 12

Other financial assets at fair value through profit or loss

Investment securities	8,290	4,552	–	–
Loan assets	3,378	4,620	–	–
Total other financial assets at fair value through profit or loss¹	11,668	9,172	–	–

¹ Included within this balance is \$1,803 million (2010: \$2,173 million) provided as security over payables to other financial institutions.

Of the above amounts, \$2,264 million (2010: \$2,687 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 13

Other assets

Debtors and prepayments	6,328	5,670	3	104
Security settlements ¹	5,693	5,480	–	–
Property held for sale and development	506	572	–	–
Other	119	79	–	–
Total other assets²	12,646	11,801	3	104

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

² Included within this balance is \$88 million (2010: \$92 million) of assets which are provided as security over amounts payable to other financial institutions.

In the year ended 31 March 2010, \$1,295 million (2009: \$1,999 million) of assets under operating leases were included in Other assets. These balances are now included in Property, plant and equipment and are disclosed in note 18.

The majority of the above amounts 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

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Note 14				
Investment securities available for sale				
Equity securities				
Listed ¹	1,969	1,001	–	–
Unlisted	572	344	–	–
Debt securities ^{2, 3, 4}	14,510	16,876	–	–
Total investment securities available for sale⁵	17,051	18,221	–	–

¹ Included within this balance is \$2 million (2010: \$1 million) provided as security over payables to other financial institutions.

² Included within this balance are debt securities of \$235 million (2010: \$316 million) which are recognised as a result of total return swaps which meet the pass through test of AASB 139 *Financial Instruments: Recognition and Measurement*. The Consolidated Entity does not have legal title to these assets but has full economic exposure to them.

³ Includes \$2,314 million (2010: \$2,382 million) of Negotiable Certificates of Deposits (NCD) due from financial institutions and \$43 million (2010: \$20 million) of bank bills.

⁴ Included within this balance is \$238 million (2010: \$232 million) provided as security over payables to other financial institutions.

⁵ Included within this balance is \$136 million (2010: \$182 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, \$5,915 million (2010: \$6,228 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 15

Intangible assets

Goodwill	665	767	–	–
Customer and servicing contracts	186	231	–	–
Intangible assets with indefinite lives	259	262	–	–
Other identifiable intangible assets	207	196	–	–
Total intangible assets	1,317	1,456	–	–

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	Customer and servicing contracts \$m	Intangible assets with indefinite lives \$m	Other identifiable intangible assets \$m	Total \$m
Balance at the beginning of the financial year	767	231	262	196	1,456
Acquisitions during the financial year	28	14	–	113	155
Reclassifications during the financial year	(12)	15	24	(27)	–
Adjustments to purchase consideration ¹	(22)	(3)	–	(7)	(32)
Disposals during the financial year	(21)	(3)	–	(5)	(29)
Impairment during the financial year	(7)	–	–	(2)	(9)
Amortisation expense for the financial year	–	(41)	–	(33)	(74)
Currency translation difference arising during the financial year	(68)	(27)	(27)	(28)	(150)
Balance at the end of the financial year	665	186	259	207	1,317

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.

Note 15

Intangible assets continued

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 16

Life investment contracts and other unitholder investment assets

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Cash and due from financial institutions	144	103	—	—
Debt securities	514	617	—	—
Units in unit trusts	4,251	3,960	—	—
Equity securities	150	166	—	—
Total life investment contracts and other unitholder investment assets	5,059	4,846	—	—

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

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

Income from life investment contracts and other unitholder investment assets

Premium income, investment revenue and management fees	329	663	—	—
Life investment contract claims, reinsurance and changes in policy liabilities	(199)	(585)	—	—
Direct fees	(47)	(34)	—	—
Total income from life investment contracts and other unitholder investment assets (note 2)	83	44	—	—

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

As at 31 March 2011, the life investment contracts business had investment assets in excess of policy holder liabilities of \$10 million (2010: \$13 million).

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 17

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

Loans and investments without provisions for impairment	1,820	2,990	-	-
Loans and investments with provisions for impairment	1,503	1,533	-	-
Less provision for impairment	(533)	(596)	-	-
Loans and investments at recoverable amount	970	937	-	-
Total interests in associates and joint ventures accounted for using the equity method	2,790	3,927	-	-

The fair values of certain interests in material associates and joint ventures, for which there are public quotations, are below their carrying value by \$215 million (2010: \$1 million).

Included within this balance is \$48 million (2010: \$nil) provided as security over payable to other financial institutions.

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

	Consolidated 2011 \$m	Consolidated 2010 \$m
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(i) Reconciliation of movement in the Consolidated Entity's interests in associates and joint ventures accounted for using the equity method:

Balance at the beginning of the financial year	3,927	6,123
Associates acquired/equity invested	549	887
Share of pre-tax profits/(losses) of associates and joint ventures	256	(329)
Share of tax (expense)/benefit of associates and joint ventures	(77)	99
Dividends received/receivable from associates (note 34)	(290)	(412)
Associates disposed of	(224)	(565)
Impairment of investments in associates	(69)	(354)
Foreign exchange and other adjustments	(22)	(649)
Transferred to other asset categories	(1,260)	(873)
Balance at the end of the financial year	2,790	3,927

Note 17

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

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

Name of entity	Country of incorporation	Reporting date	Ownership interest	
			2011 %	2010 %
BrisConnections Unit Trusts ^{1, a}	Australia	30 June	46	46
Diversified CMBS Investments Inc ^{2, b}	USA	31 March	57	57
Macquarie AirFinance Limited ^{3, c}	Bermuda	31 December	—	38
Macquarie Goodman Japan Limited ^d	Singapore	31 March	50	50
MAp Group ^{4, 5, a}	Australia	31 December	—	22
MGPA Limited ^{1, d}	Bermuda	30 June	56	56
Miclyn Express Offshore Limited ^{1, e}	Bermuda	30 June	34	34
New World Gaming Partners Holdings British Columbia Limited ^{4, f}	Canada	31 December	—	31
Redford Australian Investment Trust ^{1, a}	Australia	31 December	29	29
Southern Cross Media Group ^{1, g}	Australia	30 June	25	25

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

² Voting rights for this investment are not proportional to the ownership interest. The Consolidated Entity has joint control because neither the Consolidated Entity nor its joint investor has control in their own right.

³ During the period controlling interest in the entity has been acquired.

⁴ The Consolidated Entity has or had significant influence due to its fiduciary relationship as manager of these entities. During the period significant influence was lost and the investment is now classified as an investment security available for sale.

⁵ Previously known as Macquarie Airports.

^a Infrastructure

^b Funds management and investing

^c Aircraft Leasing

^d Property development/management entity

^e Metals, mining and energy

^f Gaming infrastructure

^g Media, television, gaming and internet investments

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 17

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

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

Share incurred jointly with other investors	15	9	–	–
For which the Consolidated Entity is severally liable	8	16	–	–

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

Consolidated Entity's share of:

Assets	5,784	11,268	–	–
Liabilities	3,109	7,330	–	–
Revenues	1,103	2,181	–	–
Profit/(loss) after tax	159	(215)	–	–

Note 18

Property, plant and equipment

Furniture, fittings and leasehold improvements

Cost	866	805	–	–
Less accumulated depreciation	(322)	(287)	–	–
Total furniture, fittings and leasehold improvements	544	518	–	–

Communication equipment

Cost	34	38	–	–
Less accumulated depreciation	(26)	(27)	–	–
Total communication equipment	8	11	–	–

Computer equipment

Cost	288	386	–	–
Less accumulated depreciation	(213)	(322)	–	–
Total computer equipment	75	64	–	–

Infrastructure assets

Cost	18	13	–	–
Less accumulated depreciation	(2)	(1)	–	–
Total infrastructure assets	16	12	–	–
Total	643	605	–	–

Assets under operating lease

Aviation

Cost	4,005	937	–	–
Less accumulated depreciation	(107)	(110)	–	–
Total aviation	3,898	827	–	–

Other

Cost	586	700	–	–
Less accumulated depreciation	(120)	(232)	–	–
Total other	466	468	–	–

Total assets under operating lease

Total assets under operating lease	4,364	1,295	–	–
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Total property, plant and equipment

Total property, plant and equipment	5,007	1,900	–	–
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The majority of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity.

Note 18

Property, plant and equipment continued

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

	Furniture, fittings and leasehold improvements \$m	Communication equipment \$m	Computer equipment \$m	Infrastructure assets \$m	Total \$m
Balance at the beginning of the financial year	518	11	64	12	605
Acquisitions	205	4	67	30	306
Disposals	(11)	(1)	(2)	–	(14)
Reclassification	(21)	–	–	–	(21)
Foreign exchange movements	(29)	–	(4)	(26)	(59)
Depreciation expense (note 2)	(118)	(6)	(50)	–	(174)
Balance at the end of the financial year	544	8	75	16	643

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 \$67 million (2010: \$77 million).

Assets under operating lease	Aviation \$m	Other \$m	Total \$m
Balance at the beginning of the financial year	827	468	1,295
Acquisitions	3,966	128	4,094
Disposals	(529)	(19)	(548)
Reclassification ¹	18	17	35
Foreign exchange movements	(292)	(62)	(354)
Depreciation expense	(92)	(66)	(158)
Balance at the end of the financial year	3,898	466	4,364

¹ Assets that cease to be under operating lease are transferred to inventory where expected to be realised through disposal.

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 permission of the financial institution. The carrying value of assets pledged is \$2,424 million (2010: \$743 million).

In the year ended 31 March 2010, \$1,295 million (2009: \$1,999 million) of assets under operating lease were disclosed as part of Other assets. During the year ended 31 March 2010, there were \$352 million of acquisitions (2009: \$484 million), \$2 million of disposals (2009: \$36 million), \$518 million loss on combined foreign exchange movements and depreciation (2009: \$20 million) and \$536 million reclassification to inventory (2009: \$29 million).

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

Assets under operating lease	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Not later than one year	537	148	–	–
Later than one year, not later than five years	1,389	378	–	–
Later than five years	356	73	–	–
Total future minimum lease payments receivable	2,282	599	–	–

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Investments at cost without provisions for impairment	–	–	10,551	9,727
Investments at cost with provisions for impairment	–	–	16,217	16,758
Less provisions for impairment	–	–	(13,163)	(13,163)
Investments at recoverable amount	–	–	3,054	3,595
Total investments in subsidiaries	–	–	13,605	13,322

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:

- Boston Australia Pty Limited
- Delaware Management Company (United States)
- Macquarie Acceptances Limited
- Macquarie Agricultural Funds Management Limited
- Macquarie Alternative Assets Management Limited
- Macquarie Bank Limited
- Macquarie Capital (USA) Inc. (United States)
- Macquarie Capital Advisers Limited
- Macquarie Equities Limited
- Macquarie Financial Holdings Limited
- Macquarie Financial Limited/Financiere Macquarie Ltee (Canada)
- Macquarie Financial Products Management Limited
- Macquarie Funding Holdings Inc. (United States)
- Macquarie Funding Inc. (Canada)
- Macquarie Funds Management Holdings Pty Limited
- Macquarie Group Services Australia Pty Limited
- Macquarie Holdings (USA) Inc. (United States)
- Macquarie Income Investments Limited
- Macquarie Infrastructure Partners Inc. (United States)
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Private Capital Management Limited
- Macquarie Securities (Australia) Limited
- Macquarie Securitisation Limited
- Macquarie Specialised Asset Management Limited
- MQ Portfolio Management Limited

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

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

Beneficial interest in all entities is 100 per cent.

All entities have a 31 March reporting date.

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 20

Deferred income tax assets/(liabilities)

The balance comprises temporary differences attributable to:

Other assets and liabilities	356	415	9	56
Tax losses	446	222	174	–
Investments in subsidiaries, associates and joint ventures	538	514	–	–
Fixed assets	86	(2)	–	–
Set-off of deferred tax liabilities	(181)	(25)	–	–
Total deferred income tax assets	1,245	1,124	183	56
Intangible assets	(140)	(145)	–	–
Other liabilities	(54)	(78)	–	–
Financial instruments	(163)	(45)	–	–
Tax effect of reserves	(111)	8	–	–
Set-off of deferred tax assets	181	25	–	–
Total deferred income tax liabilities	(287)	(235)	–	–
Net deferred income tax assets	958	889	183	56

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 \$79 million (2010: \$130 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.

Taxation of Financial Arrangements (TOFA)

The new tax regime for financial arrangements, TOFA, began to apply to the Australian tax consolidated group from 1 October 2010. The regime aims to align the tax and accounting recognition and measurement of financial arrangements and their related flows. Deferred tax balances for financial instruments that existed on adoption at 1 October 2010 will reverse over a four year period.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Note 21				
Non-current assets and disposal groups classified as held for sale				
Non-current assets and assets of disposal group classified as held for sale				
Associates	79	76	–	–
Other non-current assets	–	4	–	–
Assets of disposal groups classified as held for sale ¹	–	47	–	–
Total non-current assets and assets of disposal groups classified as held for sale	79	127	–	–
Liabilities of disposal groups classified as held for sale	–	9	–	–
Total liabilities of disposal groups classified as held for sale¹	–	9	–	–

¹ The balance at 31 March 2010 represents the assets and liabilities of Advanced Markets Holdings LLC.

The above non-current assets of disposal groups classified as held for sale are expected to be disposed of to other investors within 12 months of being classified as held for sale unless events or circumstances occur that are beyond the control of the Consolidated Entity, and the Consolidated Entity remains committed to its plan to sell the assets.

(i) Summarised information of material associates and joint ventures classified as held for sale is as follows:

Name of entity	Country of incorporation	Reporting date	Ownership interest	
			2011 %	2010 %
Retirement Villages Group ^{1, a}	Australia	30 June	10	10
Soria Finance Co ^b	Mexico	31 December	22	–

¹ The Consolidated Entity's interest in this entity was reclassified from interests in associates and joint ventures to held for sale during the year ended 31 March 2010.

^a Retirement homes

^b Infrastructure

All associates and joint ventures classified as held for sale are unlisted companies.

Voting power is equivalent to ownership interest unless otherwise stated.

(ii) For associates and joint ventures classified as held for sale, the Consolidated Entity's share of contingent liabilities, is as follows:

The Consolidated Entity's share of contingent liabilities in associates and joint ventures classified as held for sale is \$nil (2010: \$nil).

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 21

Non-current assets and disposal groups classified as held for sale continued

(iii) For associates and joint ventures classified as held for sale, financial information is as follows:

Consolidated Entity's share of:

Assets	138	324	-	-
Liabilities	45	245	-	-
Revenues	-	-	-	-
Loss after tax	-	(1)	-	-

Note 22

Due to financial institutions

OECD banks	6,327	8,360	4,451	6,922
Clearing houses ¹	6	43	-	-
Other	1,477	1,524	-	-
Total due to financial institutions	7,810	9,927	4,451	6,922

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

Note 23

Cash collateral on securities lent and repurchase agreements

Central banks	190	2,776	-	-
Governments	344	-	-	-
Financial institutions	6,002	4,590	-	-
Other	81	124	-	-
Total cash collateral on securities lent and repurchase agreements	6,617	7,490	-	-

Note 24

Trading portfolio liabilities

Listed equity securities	4,500	3,892	-	-
Other government securities	496	287	-	-
Corporate securities	472	819	-	-
Commonwealth government securities	340	434	-	-
Total trading portfolio liabilities	5,808	5,432	-	-

Note 25

Debt issued at amortised cost

Debt issued at amortised cost ¹	41,177	42,614	4,116	3,154
Total debt issued at amortised cost	41,177	42,614	4,116	3,154

¹ Included within this balance are amounts payable to SPE note holders of \$11,679 million (2010: \$14,419 million).

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 26

Other financial liabilities at fair value through profit or loss

Debt issued at fair value	873	1,691	-	-
Equity linked notes	3,466	2,722	-	-
Total other financial liabilities at fair value through profit or loss	4,339	4,413	-	-

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

(In Australian dollar equivalent):

United States dollars	18,035	16,847	3,629	2,740
Australian dollars	14,663	18,428	405	414
Canadian dollars	7,242	5,789	-	-
Euro	2,295	1,654	-	-
Japanese yen	1,466	1,350	82	-
South African rand	1,173	1,565	-	-
Korean won	247	196	-	-
Hong Kong dollars	164	386	-	-
Great British pounds	135	547	-	-
Singapore dollars	62	177	-	-
Others	34	88	-	-
Total by currency	45,516	47,027	4,116	3,154

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 27

Other liabilities

Due to brokers and customers	6,191	5,535	-	-
Creditors	5,700	4,889	-	-
Accrued charges and sundry provisions	1,857	1,895	-	-
Other	579	360	-	-
Total other liabilities	14,327	12,679	-	-

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

Note 28

Provisions

Provision for annual leave	117	100	-	-
Provision for long service leave	80	73	-	-
Provision for other employee entitlements	7	11	-	-
Provision for dividends	11	7	3	-
Total provisions	215	191	3	-

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 29

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 the internal and external measures of capital. Internally, an economic capital model (ECM) has been developed to quantify the Consolidated Entity's aggregate level of risk.

The ECM is used in the Consolidated Entity to support business decision making, including deciding the required level of capital, the setting of risk appetite and as a risk adjusted performance measure.

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A subsidiary of the Company, MBL, is accredited by APRA to apply the Basel II Foundation Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk.

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 entities conducting insurance, funds management, non-financial operations and special purpose vehicles. Level 3 consists of Level 2 group plus the Non-Banking Group. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets (RWAs) of 8 per cent at both Level 1 and Level 2, with at least 4 per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. Macquarie internal capital policy set by the Board requires capital floors above this regulatory required level. Under 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 RWAs plus Tier 1 deductions using prevailing APRA ADI Prudential Standards, and
- the non-ADI group capital requirement, using the Consolidated Entity's ECM. Transactions internal to the Consolidated Entity are excluded.

The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity's Level 3 eligible capital is defined by APRA as Group Capital (ordinary equity plus reserves plus hybrids) less regulatory adjustments required for the Banking Group, less certain reserves of the Non-Banking Group.

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

Notes to the financial statements

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continued

Note 30

Loan capital

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 are non-cumulative and unsecured and may be resold, mandatorily converted into Macquarie ordinary shares (subject to certain conditions being satisfied) or redeemed on 30 June 2013. The Macquarie CPS bears fixed-rate coupons at 11.095 per cent per annum, paid semi-annually until 30 June 2013, whereby a floating rate will apply.

Subordinated debt

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 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 PMI bears fixed-rate coupons at 8.375 per cent per annum, paid semi-annually.

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.

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

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Less than 12 months	37	—	—	—
30 June 2013	600	600	—	—
12 November 2014	10	11	—	—
18 September 2015	—	239	—	—
19 September 2016	306	330	—	—
6 December 2016	441	516	—	—
31 May 2017	308	319	—	—
21 September 2020	816	—	—	—
26 November 2035	386	—	—	—
Total loan capital¹	2,904	2,015	—	—

Reconciliation of subordinated debt by major currency:

(In Australian dollar equivalent)

Euro	1,294	527	—	—
Australian dollars	911	918	—	—
Great British pounds	308	331	—	—
United States dollars	391	239	—	—
Total loan capital¹	2,904	2,015	—	—

¹ Balance disclosed excludes \$10 million (2010: \$7 million) of directly attributable costs related to the issue of Macquarie CPS and Macquarie PMI.

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

The carrying value of subordinated debt at fair value through profit or loss at 31 March 2011 is \$5 million higher (2010: \$14 million higher) than the contractual amount at maturity as credit risk and current market interest rates are factored into the determination of fair value.

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

	Consolidated 2011 Number of Shares	Consolidated 2010 Number of Shares	Consolidated 2011 \$m	Consolidated 2010 \$m
Opening balance of fully paid ordinary shares	344,244,271	283,438,000	6,990	4,906
On-market purchase of shares pursuant to the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) at \$39.96 per share	–	(3,639)	–	–
Allocation of shares to employees pursuant to the NEDSAP at \$39.96 per share	–	3,639	–	–
Macquarie Group Staff Share Acquisition Plan (MGSSAP) share issue within the range of \$33.49 and \$47.99 per share	–	28,585	–	1
Issue of shares on exercise of options	38,089	3,293,810	1	111
Issue of shares on exercise of MEREP	11,565	–	–	–
Employee Share Plan (ESP) share issue at \$40.52 (31 March 2010: \$52.04) per share	32,328	31,065	1	2
Dividend Reinvestment Plan (DRP) share issue within the range of \$36.36 and \$45.45 (31 March 2010: \$33.24 and \$47.77) per share	1,739,817	2,738,136	72	120
Issue of shares pursuant to an institutional private placement at \$27.00 per share on 8 May 2009	–	20,000,000	–	533
Issue of shares on retraction of exchangeable shares at \$80.30 per share	256,363	161,679	21	13
Issue of shares on retraction of exchangeable shares with vesting conditions at \$50.80 per share	57,842	–	3	–
Share Purchase Plan (SPP) share issue at \$26.60 per share	–	25,151,336	–	668
Issue of shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	40,332	6,000	–	–
Issue of shares to MEREP Trust within the range of \$38.42 and \$50.40 (31 March 2010: \$46.60) per share	394,354	9,395,660	19	438
Transfer from Directors' Profit Share (DPS) liability on settlement of obligation with own equity	–	–	–	180
Transfer from share based payments reserve for MEREP awards that have vested	–	–	33	–
Transfer from share based payments reserve for employee options that have been exercised	–	–	–	18
Closing balance of fully paid ordinary shares	346,814,961	344,244,271	7,140	6,990

As at 31 March 2011, 31,089,010 (2010: 43,545,335) options granted to employees over unissued ordinary shares had not been exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 36 – Employee equity participation. Disclosures regarding the Company's DRP are included in note 5 – Dividends and distributions paid or provided for.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Company 2011 Number of Shares	Company 2010 Number of Shares	Company 2011 \$m	Company 2010 \$m
Note 31				
Contributed equity continued				
Ordinary share capital				
Opening balance of fully paid ordinary shares	344,244,271	283,438,000	9,806	7,729
On-market purchase of shares pursuant to the NEDSAP at \$39.96 per share	–	(3,639)	–	–
Allocation of shares to employees pursuant to the NEDSAP at \$39.96 per share	–	3,639	–	–
MGSSAP share issue within the range of \$33.49 and \$47.99 per share	–	28,585	–	1
Issue of shares on exercise of options	38,089	3,293,810	1	111
Issue of shares on exercise of MEREP	11,565	–	–	–
ESP share issue at \$40.52 (31 March 2010: \$52.04) per share	32,328	31,065	1	2
DRP share issue within the range of \$36.36 and \$45.45 (31 March 2010: \$33.24 and \$47.77) per share	1,739,817	2,738,136	72	120
Issue of shares pursuant to an institutional private placement at \$27.00 per share on 8 May 2009	–	20,000,000	–	533
Issue of shares on retraction of exchangeable shares at \$80.30 per share	256,363	161,679	10	6
Issue of shares on retraction of exchangeable shares with vesting conditions at \$50.80 per share	57,842	–	2	–
SPP share issue at \$26.60 per share	–	25,151,336	–	668
Issue of shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	40,332	6,000	–	–
Issue of shares to MEREP Trust within the range of \$38.42 and \$50.40 (31 March 2010: \$46.60) per share	394,354	9,395,660	19	438
Transfer from DPS liability on settlement of obligation with own equity	–	–	–	180
Transfer from share based payments reserve for MEREP awards that have vested	–	–	33	–
Transfer from share based payments reserve for employee options that have been exercised	–	–	–	18
Closing balance of fully paid ordinary shares	346,814,961	344,244,271	9,944	9,806

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 31

Contributed equity continued

Treasury shares ¹	(731)	(443)	(726)	(438)
Exchangeable shares				
Balance at the beginning of the financial year	137	116	-	-
Issue of 2,036,705 exchangeable shares at \$50.80 per share, exchangeable to shares in MGL on a one-for-one basis ^{2,3}	-	54	-	-
Issue of 43,767 (31 March 2010: 152,472) exchangeable shares with retention conditions at \$50.80 per share, exchangeable to shares in MGL on a one-for-one basis ^{2,3}	6	2	-	-
Retraction of 256,363 (31 March 2010: 161,679) exchangeable shares at \$80.30 per share, exchangeable to shares in MGL on a one-for-one basis ⁴	(21)	(13)	-	-
Retraction of 57,842 (31 March 2010: nil) exchangeable shares with vesting conditions at \$50.80 per share, exchangeable to shares in MGL on a one-for-one basis	(3)	-	-	-
Cancellation of 103,764 (31 March 2010: 142,386) exchangeable shares at \$80.30 per share	(8)	(11)	-	-
Cancellation of 410,673 (31 March 2010: 345,148) exchangeable shares at \$50.80 per share	(7)	(11)	-	-
Cancellation of nil (31 March 2010: 55,059) exchangeable shares with retention conditions at \$50.80 per share	-	-	-	-
Total exchangeable shares at the end of the financial year	104	137	-	-

¹ In December 2009, the Company introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff. Under MEREP the staff retained profit share is held in the shares of the Company by the Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust) and presented as Treasury shares. For further information regarding terms and conditions of MEREP refer to note 36 – Employee equity participation.

² 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 are eligible to be exchanged on a 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. The exchangeable shares must be exchanged by August 2019 and carry no MGL voting rights.

There are also retention agreements in place with key former Tristone employees, under which new MGL shares may be allocated within five years from the date of acquisition. As at 31 March 2011, the total number of retention options remaining is 81,884 (2010: 131,297).

³ The value of the exchangeable shares at reporting date includes a fair value adjustment due to an earn out mechanism. The number of exchangeable shares exercisable by the holders will expand (to a maximum of 4 million shares) or contract, based on the performance of the acquired business against pre-determined financial performance measures until the adjustment date (a date between the second anniversary of closing and not later than 60 days after the second anniversary of closing).

⁴ 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*. They are 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. The exchangeable shares will expire in November 2017 and carry no MGL voting rights.

There are also retention agreements in place with key former Orion employees, under which new MGL shares may be allocated within five years from the date of acquisition. As at 31 March 2011, the total number of retention options remaining is 66,668 (2010: 127,000).

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Note 32				
Reserves, retained earnings and non-controlling interests				
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	(320)	(34)	–	–
Currency translation differences arising during the financial year, net of hedge	(500)	(286)	–	–
Balance at the end of the financial year	(820)	(320)	–	–
Available for sale reserve				
Balance at the beginning of the financial year	126	(3)	–	–
Revaluation movement for the financial year, net of tax	437	133	–	–
Transfer to income statement for impairment	(6)	1	–	–
Transfer to profit on realisation	(175)	(5)	–	–
Balance at the end of the financial year	382	126	–	–
Share based payments reserve				
Balance at the beginning of the financial year	544	338	359	153
Option expense for the financial year	32	110	–	–
MEREP expense for the financial year	246	114	–	–
Options issued to employees of subsidiaries (note 34)	–	–	32	110
MEREP issued to employees of subsidiaries (note 34)	–	–	246	114
Transfer to share capital on exercise of options	–	(18)	–	(18)
Transfer to share capital on vesting of MEREP awards	(33)	–	(33)	–
Balance at the end of the financial year	789	544	604	359
Cash flow hedging reserve				
Balance at the beginning of the financial year	(39)	(217)	–	–
Revaluation movement for the financial year, net of tax	2	178	–	–
Balance at the end of the financial year	(37)	(39)	–	–
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	(31)	(67)	–	–
Share of reserves during the financial year	27	36	–	–
Balance at the end of the financial year	(4)	(31)	–	–
Total reserves at the end of the financial year	310	280	604	359
Retained earnings				
Balance at the beginning of the financial year	4,268	3,627	2,902	2,946
Profit attributable to ordinary equity holders of Macquarie Group Limited	956	1,050	573	363
Dividends paid on ordinary share capital (note 5)	(643)	(409)	(641)	(407)
Balance at the end of the financial year	4,581	4,268	2,834	2,902

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 32

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Preferred Securities¹

Proceeds on issue of Macquarie Income Preferred Securities	107	107	–	–
Less issue costs	(1)	(1)	–	–
	106	106		
Current year profit	4	8	–	–
Distribution provided on Macquarie Income Preferred Securities (note 5)	(4)	(8)	–	–
Foreign currency translation reserve	(43)	(39)	–	–
Total Macquarie Income Preferred Securities	63	67	–	–

Macquarie Income Securities²

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	–	–

Other non-controlling interests

Ordinary share capital	46	40	–	–
Foreign currency translation reserve	(12)	(13)	–	–
Retained earnings	40	52	–	–
Total other non-controlling interests	74	79	–	–
Total non-controlling interests	528	537	–	–

¹ 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 (2010: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at 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. The first coupon was paid on 15 April 2005. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

² 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 (2010: 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.

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.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 33

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:

Due from financial institutions ¹	9,667	7,940	–	–
Trading portfolio assets and debt securities ²	2,656	3,833	–	–
Cash and cash equivalents at the end of the financial year	12,323	11,773	–	–

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

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

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

Profit after income tax	989	1,093	573	363
Adjustments to profit after income tax:				
Depreciation and amortisation	406	445	–	–
Dividends received/receivable from associates	290	412	–	–
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	(234)	146	–	–
Gain on acquiring, disposing, and change in ownership interest in subsidiaries and businesses held for sale	(96)	(393)	–	–
Gain on repurchase of subordinated debt	–	(55)	–	–
Impairment charge on financial and non-financial assets	270	705	–	–
Interest on available for sale financial assets	(148)	(288)	–	–
Net gains on sale of investment securities available for sale and associates and joint ventures	(377)	(146)	–	–
Sale of management rights	(14)	(428)	–	–
Share based payment expense	284	224	–	–
Share of net (profits)/losses of associates and joint ventures accounted for using the equity method	(179)	230	–	–
Changes in assets and liabilities:				
Change in amount due from subsidiaries under tax funding agreement	–	–	(100)	(408)
Change in dividends receivable	(50)	138	–	–
Change in fees and non-interest income receivable	316	152	–	–
Change in fees and commissions payable	14	21	–	–
Change in tax balances	78	(87)	52	337
Change in provisions for employment entitlements	6	12	–	–
Change in loan assets	(1,550)	336	2,548	404
Change in loan payable to a subsidiary	–	–	(512)	(2,551)
Change in debtors, prepayments, accrued charges and creditors	(292)	1,004	8	3
Change in net trading portfolio assets and liabilities and net derivative financial instruments	(4,862)	266	–	–
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	7,324	(8,632)	(1,516)	2,632
Change in life investment contract receivables	204	(1,114)	–	–
Net cash flows from/(used in) operating activities	2,379	(5,959)	1,053	780

Note 34

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.

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 offsetting reflects the substance of the transaction or event.

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.

In the financial year ended 31 March 2008 the Company received a \$10.1 billion intra-group loan from MBL of which \$737 million (2010: \$1,249 million) remained outstanding at the balance date. This facility has been repaid on 27 April 2011.

A list of material subsidiaries is set out in note 19 – 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 2011, current tax liabilities of subsidiaries assumed by MGL as the head entity of the tax consolidated group amounted to \$201 million (2010: \$558 million). As at 31 March 2011, the amount receivable by the Company under the tax funding agreement with the tax consolidated entities is \$294 million (2010: \$194 million payable). 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 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Interest income received/receivable (note 2)	–	–	521	453
Interest expense paid/payable (note 2)	–	–	(91)	(93)
Share based payments to employees of subsidiaries (note 32)	–	–	(278)	(224)
Dividends and distributions (note 2)	–	–	635	380
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	–	–	9,530	11,643
Amounts payable ¹	–	–	(1,951)	(2,357)

¹ As described in note 1(xx) – Summary of significant accounting policies, the Company has recognised a liability as at 31 March 2011 of \$189 million (2010: \$91 million) for amounts received in advance as at 31 March 2011 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. The weighted average interest rate charged on outstanding balances receivable/payable are disclosed in note 42 – Average interest bearing assets and liabilities and related interest.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 34

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 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Interest income received/receivable	3	6	–	–
Fee and commission income ¹	452	683	–	–
Other income	3	3	–	–
Gains on sale of securities ²	19	57	–	–
Dividends and distributions ³ (note 17)	290	412	–	–
Brokerage and commission expense	(10)	(7)	–	–

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 17 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Amounts receivable	237	325	–	–
Amounts payable	(142)	(112)	–	–

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

Note 35

Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of the Company during the financial years ended 31 March 2011 and 31 March 2010, unless indicated.

Executive Directors

N.W. Moore ¹	Managing Director and Chief Executive Officer
L.G. Cox, AO	(resigned 29 July 2009)

Non-Executive Directors

D.S. Clarke, AO	Non-Executive Chairman (resigned 17 March 2011)
M.J. Hawker, AM	(appointed 22 March 2010)
P.M. Kirby	
C.B. Livingstone, AO	
H.K. McCann, AM	Non-Executive Chairman (appointed as Chairman 17 March 2011)
J.R. Niland, AC	
H.M. Nugent, AO	
P.H. Warne	

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MGL during the past two financial years ended 31 March 2011 and 31 March 2010, unless otherwise indicated.

Executives

S.D. Allen ¹	Group Head, Risk Management Group (appointed 28 September 2009)
T.C. Bishop ¹	Country Head, United States of America (appointed 2 July 2010)
M. Carapiet ¹	Executive Chairman, Macquarie Capital and Macquarie Securities Group
A.J. Downe ¹	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell ¹	Group Head, Corporate and Asset Finance Group (appointed 2 July 2010)
R.S. Laidlaw ¹	Group Head, Macquarie Securities Group and Macquarie Capital
P.J. Maher ¹	Group Head, Banking and Financial Services Group
N.R. Minogue	Former Group Head, Risk Management Group (resigned 30 November 2009)
W.R. Sheppard ¹	Deputy Managing Director
S. Vrcelj ¹	Head of Global Cash and Equities (appointed 2 July 2010)
G.C. Ward ¹	Chief Financial Officer
S. Wikramanayake ¹	Group Head, Macquarie Funds Group

¹ Members of the Consolidated Entity's Executive Committee as at 29 April 2011.

It is important to note that the Company's Non-Executive Directors are specifically required to be categorised as Key Management Personnel for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider that they are part of 'management'.

The remuneration arrangements for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report on pages 77 to 128.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 35

Key Management Personnel disclosure continued

Key Management Personnel remuneration continued

The following tables detail the aggregate remuneration for Key Management Personnel:

	Short-term Employee Benefits			Long-term Employee Benefits ¹			Share Based Payments
	Salary and fees (including superannuation)	Performance related remuneration	Other benefits	Total short-term Employee Benefits	Restricted profit share	Shares/ PSUs/ options	Total remuneration
	\$	\$	\$	\$	\$	\$	\$
Executive Remuneration							
2011	7,631,089	22,162,270	–	29,793,359	10,137,294	18,985,916	58,916,569
2010	4,175,424	21,171,591	–	25,347,015	5,219,357	14,598,152	45,164,524
Non-Executive Remuneration							
2011	3,141,600	–	66,750	3,208,350	–	–	3,208,350
2010	2,652,252	–	36,950	2,689,202	–	–	2,689,202

¹ Includes earnings or losses on restricted profit share.

Note 35

Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties

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. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. Further details in relation to the MGESOP are disclosed in note 36 – Employee equity participation. There were no options issued to Key Management Personnel during the financial years ended 31 March 2011 and 31 March 2010.

For the financial year ended 31 March 2011

Name and position	Number of options outstanding at 1 April 2010 ¹	Options not able to be exercised due to performance hurdles not met ²			Number of options outstanding at 31 March 2011 ⁴	Number of options vested during the financial year	Number of options vested at 31 March 2011 ⁴
		Options exercised during the financial year	Other changes ³	Number of options			
Executive Directors							
N.W. Moore	623,501	–	(186,100)	(170,000)	267,401	–	53,333
Executives							
S.D. Allen	218,725	–	–	(69,750)	148,975	49,659	98,112
T.C. Bishop ⁵	355,219	–	–	(24,414)	330,805	–	181,470
M. Carapiet	460,781	–	(156,454)	(81,207)	223,120	–	47,786
A.J. Downe	341,334	–	(116,000)	(50,000)	175,334	–	28,333
G.A. Farrell ⁵	211,595	–	–	(33,500)	178,095	–	113,767
R.S. Laidlaw	347,925	–	(45,000)	(52,320)	250,605	53,536	134,816
P.J. Maher	103,334	–	(34,999)	(16,667)	51,668	–	10,000
W.R. Sheppard	161,000	–	(47,000)	(50,000)	64,000	–	15,000
S. Vrcelj ⁵	108,000	–	–	–	108,000	–	57,333
G.C. Ward	123,500	–	(37,833)	(30,000)	55,667	–	10,000
S. Wikramanayake	178,275	–	(26,666)	(23,000)	128,609	25,092	60,211

¹ Or date of appointment if later.

² Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2010 were not achieved and therefore the options did not vest. These options were not exercisable and the related expense previously recognised on these option grants was reversed during the financial year. The value of those options that lapsed calculated on 1 July 2010 was \$nil. Such options have been excluded from the table above.

³ Includes vested options lapsed during the financial year.

⁴ Or date of resignation if earlier.

⁵ Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents holdings at the date of appointment.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 35

Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2010

Name and position	Number of options outstanding at 1 April 2009 ¹	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met ²	Other changes ³	Number of options outstanding at 31 March 2010 ⁴	Number of options vested during the financial year	Number of options vested at 31 March 2010 ⁴
Executive Directors							
N.W. Moore	776,634	(48,334)	(104,799)	–	623,501	56,668	223,333
Executives							
S.D. Allen ⁵	218,725	–	–	–	218,725	–	90,303
M. Carapiet	550,567	–	(89,786)	–	460,781	40,604	128,993
A.J. Downe	426,334	–	(56,666)	(28,334)	341,334	16,668	78,333
R.S. Laidlaw	372,374	–	–	(24,449)	347,925	70,974	133,600
P.J. Maher	135,001	–	(18,333)	(13,334)	103,334	8,334	26,667
W.R. Sheppard	224,334	–	(30,000)	(33,334)	161,000	16,668	65,000
G.C. Ward	156,834	(13,334)	(20,000)	–	123,500	10,000	40,000
S. Wikramanayake	178,275	–	–	–	178,275	36,591	58,119
Former							
L.G. Cox ⁶	32,265	–	(6,081)	(26,184)	–	–	–
N.R. Minogue ⁷	170,834	–	(23,332)	(100,836)	46,666	11,668	46,666

¹ Or date of appointment if later.

² Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2009 were not achieved and therefore the options did not vest. These options were not exercisable and the related expense previously recognised on these option grants were reversed in the prior year. The value of those options that lapsed calculated on 1 July 2009 was \$nil. Such options have been excluded from the table above.

³ Includes vested options sold under facility provided by an external party unless otherwise noted.

⁴ Or date of resignation if earlier.

⁵ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁶ Mr Cox resigned from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of resignation.

⁷ Mr Minogue resigned from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of resignation.

Note 35

Key Management Personnel disclosure continued

MEREP RSU Awards of Key Management Personnel and their related parties

The following tables set out details of MEREP RSU 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 RSU awards are disclosed in note 36 – Employee equity participation.

For the financial year ended 31 March 2011

Name and position	Number of RSU awards held at 1 April 2010 ¹	RSU awards granted during the financial year ²	Vested RSU awards withdrawn from the MEREP during the financial year	Number of RSU awards held at 31 March 2011 ³	Number of RSU awards vested at 31 March 2011
Executive Directors					
N.W. Moore	466,460	105,362	–	571,822	58,567
Executives					
S.D. Allen ⁴	113,565	40,304	(13,290)	140,579	–
T.C. Bishop ^{5, 6}	159,242	–	(6,074)	153,168	6,002
M. Carapiet	34,661	45,715	–	80,376	–
A.J. Downe	80,877	97,961	–	178,838	–
G.A. Farrell ⁵	60,508	–	–	60,508	–
R.S. Laidlaw	126,778	71,266	(13,159)	184,885	–
P.J. Maher	88,468	36,245	(9,832)	114,881	–
W.R. Sheppard	108,729	21,769	(14,799)	115,699	–
S. Vrcelj ⁵	104,379	–	(9,341)	95,038	–
G.C. Ward	92,688	38,313	(8,106)	122,895	–
S. Wikramanayake ⁷	69,028	13,605	(8,485)	74,148	–

¹ Or date of appointment if later.

² As discussed in note 1(xx) – 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. Consequently, RSUs disclosed as granted above relate to 2010.

³ Or date of resignation if earlier.

⁴ At 31 March 2011, 88,406 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.

⁵ Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents their holdings at the date of appointment.

⁶ At 31 March 2011, 60,382 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.

⁷ At 31 March 2011, 47,603 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 2011

continued

Note 35

Key Management Personnel disclosure continued

For the financial year ended 31 March 2010

Name and position	Number of RSU awards held at 1 April 2009 ¹	RSU awards granted during the financial year ²	Vested RSU awards withdrawn from the MEREP during the financial year	Number of RSU awards held at 31 March 2010 ³	Number of RSU awards vested at 31 March 2010
Executive Directors					
N.W. Moore	–	466,460	–	466,460	–
Executives					
S.D. Allen ⁴	–	113,565	–	113,565	–
M. Carapiet	–	34,661	–	34,661	–
A.J. Downe	–	80,877	–	80,877	–
R.S. Laidlaw	–	126,778	–	126,778	–
P.J. Maher	–	88,468	–	88,468	–
W.R. Sheppard	–	108,729	–	108,729	–
G.C. Ward	–	92,688	–	92,688	–
S. Wikramanayake ⁵	–	69,028	–	69,028	–

¹ Or date of appointment if later.

² As discussed in note 1(xx) – 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. Consequently, RSUs disclosed as granted above relate to 2009 and include pre-2009 in relation to transition awards.

³ Or date of resignation if earlier.

⁴ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment. 88,406 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 held in the MEREP.

⁵ At 31 March 2010, 49,330 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 held in the MEREP.

Note 35

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 36 – Employee equity participation.

For the financial year ended 31 March 2011

Name and position	Number of PSU awards held at 1 April 2010 ¹	PSU awards granted during the financial year ²	PSU awards exchanged during the financial year	Number of PSU awards held at 31 March 2011 ³	Number of PSU awards vested during the financial year	Number of PSU awards vested at 31 March 2011
Executive Directors						
N.W. Moore	38,300	108,225	–	146,525	–	–
Executives						
S.D. Allen	–	29,906	–	29,906	–	–
T.C. Bishop	–	–	–	–	–	–
M. Carapiet	34,300	69,624	–	103,924	–	–
A.J. Downe	53,500	99,567	–	153,067	–	–
G.A. Farrell	–	–	–	–	–	–
R.S. Laidlaw	20,700	72,510	–	93,210	–	–
P.J. Maher	13,000	36,796	–	49,796	–	–
W.R. Sheppard	3,900	24,927	–	28,827	–	–
S. Vrcelj	–	–	–	–	–	–
G.C. Ward	26,700	44,011	–	70,711	–	–
S. Wikramanayake	11,500	24,927	–	36,427	–	–

¹ Or date of appointment if later.

² As discussed in note 1(xx) – 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. Consequently, PSUs disclosed as granted above relate to 2010.

³ Or date of resignation if earlier.

Notes to the financial statements

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continued

Note 35

Key Management Personnel disclosure continued

MEREP PSU Awards of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2010

Name and position	Number of PSU awards held at 1 April 2009 ¹	PSU awards granted during the financial year ²	PSU awards exchanged during the financial year	Number of PSU awards held at 31 March 2010 ³	Number of PSU awards vested during the financial year	Number of PSU awards vested at 31 March 2010 ³
Executive Directors						
N.W. Moore	–	38,300	–	38,300	–	–
Executives						
S.D. Allen ⁴	–	–	–	–	–	–
M. Carapiet	–	34,300	–	34,300	–	–
A.J. Downe	–	53,500	–	53,500	–	–
R.S. Laidlaw	–	20,700	–	20,700	–	–
P.J. Maher	–	13,000	–	13,000	–	–
W.R. Sheppard	–	3,900	–	3,900	–	–
G.C. Ward	–	26,700	–	26,700	–	–
S. Wikramanayake	–	11,500	–	11,500	–	–

¹ Or date of appointment if later.

² As discussed in note 1(xx) – 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. Consequently, PSUs disclosed as granted above relate to 2009.

³ Or date of resignation if earlier.

⁴ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

Note 35

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 2011

Name and position	Number of shares held at 1 April 2010 ¹	Shares received on withdrawal from the MEREP	Other changes ²	Number of shares held at 31 March 2011 ³
Executive Directors				
N.W. Moore	1,245,745	–	–	1,245,745
Non-Executive Directors				
H.K. McCann	13,485	–	–	13,485
M.J. Hawker	4,103	–	2,000	6,103
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	38,205	13,290	(13,290)	38,205
T.C. Bishop ⁴	–	6,074	(6,074)	–
M. Carapiet	587,616	–	–	587,616
A.J. Downe	78,878	–	(20,779)	58,099
G.A. Farrell ⁴	148,646	–	(16,963)	131,683
R.S. Laidlaw	39,035	13,159	(50,329)	1,865
P.J. Maher	74,175	9,832	(75,270)	8,737
W.R. Sheppard	249,309	14,799	(35,925)	228,183
S. Vrcelj ⁴	–	9,341	(9,341)	–
G.C. Ward	15,345	8,106	(14,515)	8,936
S. Wikramanayake	326,867	8,485	–	335,352
Former				
D.S. Clarke ⁵	273,717	–	(213,464)	60,253

¹ Or date of appointment if later.

² Includes on-market acquisitions and disposals.

³ Or date of resignation if earlier.

⁴ Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents their holdings at the date of appointment.

⁵ Mr Clarke resigned from the Board on 17 March 2011. Balance at 31 March 2011 represents holdings at date of resignation.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 35

Key Management Personnel disclosure continued

Shareholdings of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2010

Name and position	Number of shares held at 1 April 2009 ¹	Shares received on exercise of options	Other changes ²	Number of shares held at 31 March 2010 ³
Executive Directors				
N.W. Moore	1,197,411	48,334	–	1,245,745
Non-Executive Directors				
D.S. Clarke ⁴	704,914	–	(431,197)	273,717
M.J. Hawker ⁵	4,103	–	–	4,103
P.M. Kirby	18,996	–	4,202	23,198
C.B. Livingstone	8,980	–	3,020	12,000
H.K. McCann	11,359	–	2,126	13,485
J.R. Niland	9,559	–	563	10,122
H.M. Nugent	20,613	–	563	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen ⁶	38,205	–	–	38,205
M. Carapiet	680,750	–	(93,134)	587,616
A.J. Downe	124,102	–	(45,224)	78,878
R.S. Laidlaw	38,475	–	560	39,035
P.J. Maher	106,175	–	(32,000)	74,175
W.R. Sheppard	267,790	–	(18,481)	249,309
G.C. Ward	15,345	13,334	(13,334)	15,345
S. Wikramanayake	326,867	–	–	326,867
Former				
L.G. Cox ⁷	269,812	–	–	269,812
N.R. Minogue ⁸	136,620	–	–	136,620

¹ Or date of appointment if later.

² Includes on-market acquisitions and disposals.

³ Or date of resignation if earlier.

⁴ Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

⁵ Mr Hawker was appointed to the Board on 22 March 2010. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁶ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁷ Mr Cox resigned from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of resignation.

⁸ Mr Minogue resigned from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of resignation.

Note 35

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	2011	31,691	1,290	–	5,532
	2010	42,861	3,045	–	31,691
Total for Key Management Personnel¹	2011	12,422	693	–	5,532
	2010	22,729	863	–	12,422

¹ Number of persons included in the aggregate at 31 March 2011: 3 (2010: 5).

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

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

Key Management Personnel including their related parties with loans above \$100,000 at any time during the financial year ended 31 March 2011 are as follows:

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

¹ Or date of appointment if later.

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

³ Or date of resignation if earlier.

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

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 35

Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties continued

For the financial year ended 31 March 2010

Name and position	Balance at 1 April 2009 ¹ \$'000	Interest charged ² \$'000	Write-downs \$'000	Balance at 31 March 2010 ³ \$'000	Highest balance during financial year \$'000
Executive Directors					
N.W. Moore	5,313	330	–	5,274	5,313
Non-Executive Directors					
D.S. Clarke ⁴	37,290	2,700	–	26,160	38,975
Executives					
R.S. Laidlaw	238	14	–	238	238

¹ Or date of appointment if later.

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

³ Or date of resignation if earlier.

⁴ Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

Note 35

Key Management Personnel disclosure continued

Other transactions with Key Management Personnel and their related parties

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

	Consolidated 2011 \$'000	Consolidated 2010 \$'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	13,892	10,123

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

Executive Directors

N.W. Moore

Non-Executive Directors

P.M. Kirby

Executives

S.D. Allen, M. Carapiet, A.J. Downe, G.A. Farrell (2011 only), R.S. Laidlaw, P.J. Maher, W.R. Sheppard, S. Vrcelj (2011 only), G.C. Ward, S. Wikramanayake

Former Directors

L.G. Cox (2010 only), N.R. Minogue (2010 only)

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

Transactions with the Consolidated Entity

Name and position	Description	Number of shares 2011	Number of shares 2010
Executives			
A.J. Downe ^{1, 2}	Matured August 2010 Matured July 2010	21,905 -	-
Former			
D.S. Clarke ¹	Matured June 2010	-	213,517

¹ The collar and the loan reported for Mr Clarke and the collar reported for Mr Downe for the year ended 31 March 2010 were unwound on 31 May 2010 and 1 June 2010 respectively. The shares and the loan (where applicable) were repaid on those dates.

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

All other transactions with Key Management Personnel (including their 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.

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Note 36

Employee equity participation

Option Plan

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

Previously, the staff eligible to participate in the MGESOP were those of Associate Director level and above and consultants to the Consolidated Entity. At 31 March 2011, there were 2,441 (2010: 2,821) participants of 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 the individual's controlled Company or an entity approved under the MGESOP to hold options. The options were issued for no consideration and were granted at prevailing market prices.

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

	Number of options 2011	Weighted average exercise price 2011 \$	Number of options 2010	Weighted average exercise price 2010 \$
Outstanding at the beginning of the financial year	43,545,335	60.94	51,675,990	59.57
Granted during the financial year	–	–	799,000	37.16
Forfeited during the financial year	(2,907,034)	57.34	(3,073,464)	60.84
Exercised during the financial year	(38,089)	30.32	(3,292,178)	33.63
Lapsed during the financial year	(9,511,202)	63.20	(2,564,013)	60.69
Outstanding at the end of the financial year	31,089,010	60.63	43,545,335	60.94
Exercisable at the end of the financial year	18,446,554	63.22	16,756,527	64.90

For options exercised during the financial year the weighted average share price at the date of exercise was \$37.36 (2010: \$41.30).

The range of exercise prices for options outstanding at the end of the financial year was \$17.10 to \$94.48 (2010: \$17.10 to \$94.48).

Note 36

Employee equity participation continued

Option Plan continued

The weighted average remaining contractual life for the share options outstanding as at 31 March 2011 is 1.57 years (2010: 2.24 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range \$	Number of options 2011	Remaining life (years) 2011	Number of options 2010	Remaining life (years) 2010
10 – 20	24,000	2.94	29,000	3.94
20 – 30	279,565	2.85	320,951	3.86
30 – 40	484,457	2.71	667,746	3.76
40 – 50	374,531	2.51	623,513	2.92
50 – 60	13,458,653	2.33	15,915,168	3.36
60 – 70	7,679,595	0.38	15,724,244	0.94
70 – 80	8,203,057	1.31	9,524,147	2.32
80 – 90	430,688	1.12	576,768	1.98
90 – 100	154,464	1.20	163,798	2.21
	31,089,010	1.57	43,545,335	2.24

There were no options issued in the financial year. The weighted average fair value of options granted during the previous financial year was \$11.30.

The market value of shares issued during the year as a result of the exercise of these options was \$1 million (2010: \$136 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2011 was \$1,137 million (2010: \$2,058 million). No unissued shares, other than those referred to above, are under option under the MGESOP as at the date of this report.

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

Options granted vest as to one third of each tranche 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.

The MGESOP rules provide that the total number of options which can be on issue at any one time is limited such that the number of shares resulting from exercise of all unexercised options does not exceed 20 per cent of the number of the Company's then issued ordinary shares plus the number of shares which the Company would have to issue if all rights to require the Company to issue shares, which the Company has then granted (including options) were then enforced or exercised to the greatest extent permitted.

Notes to the financial statements

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continued

Note 36

Employee equity participation continued

Option Plan continued

The Board has applied a second limitation on the number of options, being effectively the same calculation as in the MGESOP rules except that any exercised options granted less than five years ago, where the Executive is still with the Company, will be treated as still being unexercised.

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

On 25 May 2000, the MBL Board approved amendments to the Macquarie Bank Employee Share Option Plan rules referred to as the Deferred Exercise Share Option Plan (DESOP). Shares resulting from the exercise of options since then have been placed under the DESOP, unless option holders request otherwise. Unless the Company is aware of circumstances which, in the reasonable opinion of the Company, indicate that the relevant Executive may have acted fraudulently, dishonestly or in a manner which is in breach of his/her obligations to the Company or any associated entity, then such a request will be granted. These amendments were rolled forward into the current MGESOP approved by the Company's Board.

Shares acquired under DESOP cannot be sold, transferred or disposed of for a period of six months from the date that the shares are transferred into a participating employee's name and are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to affairs of the Company or a related entity or if they carry out or fail to carry out an act which brings the Company or an associated entity into disrepute.

Shares held in the DESOP will be withdrawn on the earlier of:

- an employee's resignation from the Company or a related company;
- upon request from the employee (after the expiration of the non-disposal period); and
- 10 years from the date that the options were originally granted.

Options carry no dividend or voting rights but have standard adjustment clauses for bonus and rights issues and reconstructions.

For the year ended 31 March 2011, compensation expense relating to exchangeable shares, retention securities and option plans totalled \$50 million (2010: \$110 million).

Macquarie Group Employee Retained Equity Plan

In December 2009, the Company's shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREPI) in conjunction with remuneration arrangements. These revised 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. Participation in the MEREPI is currently provided to the following staff (Eligible Employees):

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

For Retained Profit Share Awards representing 2010 retention, the conversion price was the volume weighted average price from 10 May 2010 up to and including the date of the allocation which was taken to be 30 June 2010. That price was calculated to be \$43.48 (2010: \$36.36).

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

For most New Hire and Promotion Awards, a standard number of Awards was offered, depending on the level at which the employee was hired at or promoted to. In limited cases, there are variations to these fixed amounts for specific individuals.

Note 36

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

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 generally of Company shares do not receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as are provided to holders of RSUs. However, holders of DSUs will have no voting rights as to any underlying MGL shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs below).

Performance Share Units (PSUs)

PSUs are structured as DSUs or RSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. Where PSUs are structured as DSUs, holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs. For 2010, the PSUs granted to the Executive Committee, including the CEO, are structured as DSUs with performance hurdles. The rights under any future PSUs structured as RSUs will generally be the same as the rights under RSUs, except for the PSU performance hurdles which will not apply to RSUs.

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Note 36

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

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

	Number of RSU Awards 2011	Number of RSU Awards 2010
RSUs on issue at the beginning of the financial year	7,907,165	–
Granted during the financial year	6,553,673	7,986,684
Vested RSUs withdrawn from the MEREP during the financial year	(1,029,563)	–
Forfeited during the financial year	(608,135)	(79,519)
RSUs on issue at the end of the financial year	12,823,140	7,907,165
RSUs vested and not withdrawn from the MEREP at the end of the financial year	452,308	–

The weighted average fair value of the RSU Awards granted during the financial year was \$42.59 (2010: \$46.35).

	Number of DSU Awards 2011	Number of DSU Awards 2010
DSUs on issue at the beginning of the financial year	1,421,063	–
Granted during the financial year	899,562	1,457,718
Exercised during the financial year	(38,545)	–
Forfeited during the financial year	(171,823)	(36,655)
DSUs on issue at the end of the financial year	2,110,257	1,421,063
DSUs exercisable at the end of the financial year	96,371	–

The weighted average fair value of the DSU Awards granted during the financial year was \$42.64 (2010: \$46.35).

	Number of PSU Awards 2011	Number of PSU Awards 2010
PSUs on issue at the beginning of the financial year	201,900	–
Granted during the financial year	510,493	201,900
PSUs on issue at the end of the financial year	712,393	201,900
PSUs exercisable at the end of the financial year	–	–

The weighted average fair value of the PSU Awards granted during the financial year was \$34.63 (2010: \$43.85).

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. For the year ended 31 March 2011, compensation expense relating to the MEREP totalled \$256 million (2010: \$114 million).

Note 36

Employee equity participation continued

Vesting of Retained DPS Awards

The Vesting Periods that apply to Retained DPS Awards representing 2009 and 2010 retention are set out below for all Executive Directors:

	2010 retention		2009 retention		
	Portion of Awards released for Designated Executive Directors	Portion of Awards released for Non-Designated Executive Directors	First staff trading day after ¹	Portion of Awards released for Designated Executive Directors	Portion of Awards released for Non-Designated Executive Directors
First staff trading day after ¹					
1 July 2013	1/5 th	1/3 rd	1 July 2012	1/5 th	1/5 th
1 July 2014	1/5 th	1/3 rd	1 July 2013	1/5 th	1/5 th
1 July 2015	1/5 th	1/3 rd	1 July 2014	1/5 th	1/5 th
1 July 2016	1/5 th	–	1 July 2015	1/5 th	1/5 th
1 July 2017	1/5 th	–	1 July 2016	1/5 th	1/5 th

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

Vesting of Transitioned Amounts

The Vesting Periods that apply to Transition Awards are set out below:

First staff trading day after ²	Portion of Awards released for	
	Executive Committee	Other Executive Directors
1 July 2010	1/7 th	1/5 th
1 July 2011	1/7 th	1/5 th
1 July 2012	1/7 th	1/5 th
1 July 2013	1/7 th	1/5 th
1 July 2014	1/7 th	1/5 th
1 July 2015	1/7 th	–
1 July 2016	1/7 th	–

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.

Vesting of 2009 and 2010 Retained Profit Share and 2009 and 2010 Promotion Awards

The Vesting Periods that apply to 2009 and 2010 Retained Profit Share and 2009 and 2010 Promotion Awards are set out below for all Eligible Employees:

2010 Awards		2009 Awards	
First staff trading day after ³	Portion of Awards vested	First staff trading day after ³	Portion of Awards vested
1 July 2012	1/3 rd	1 July 2011	1/3 rd
1 July 2013	1/3 rd	1 July 2012	1/3 rd
1 July 2014	1/3 rd	1 July 2013	1/3 rd

³ Vesting will occur on the first day of a staff trading window following 1 July of the specified year.

In limited cases, the Application Form for 2009 and 2010 Retained Profit Share Awards and 2009 and 2010 Promotion Awards may set out a different Vesting Period, in which case that period will be the Vesting Period for the Award.

Notes to the financial statements

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Note 36

Employee equity participation continued

Vesting of New Hire Awards

New Hire Awards to Eligible Employees will then vest in three equal tranches on the first day of the first staff trading period following the second, third and fourth anniversary of the vesting start date.

Vesting of Performance Share Units

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Currently, only members of the MGL and MBL Executive Committee are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members in respect of the 2009 and 2010 remuneration years, two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded. These hurdles are set out below. The BRC will periodically review the performance hurdles, including the reference group, and has the discretion to change the performance hurdles in line with regulatory and remuneration trends. Any change will be disclosed in the Consolidated Entity's Annual Report.

Performance Hurdle 1

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

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

Performance Hurdle 2

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

Awards will vest on a sliding scale with 50 per cent vesting at EPS CAGR of 9.0 per cent and 100 per cent vesting at EPS CAGR of 13.0 per cent. For example, if EPS CAGR were 11 per cent, 75 per cent of the Award would vest.

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

Employee Share Plan

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

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

The latest offer under the ESP was made during December 2010. A total of 1,347 (2010: 1,635) staff participated in this offer. On 25 January 2011, the participants were each issued with 24 (2010: 19) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$40.52 (2010: \$52.04), a total of 32,328 (2010: 31,065) shares were issued. The shares were issued for no cash consideration.

Staff Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL introduced the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) whereby each financial year, Australian based Eligible Employees were given the opportunity to nominate an amount of their pre-tax available profit share or future commission to purchase fully paid ordinary Company shares on-market. The Company has since introduced the Macquarie Group Staff Share Acquisition Plan (MGSSAP) on the same terms. In early 2010, the Company suspended new offers under the MGSSAP following Australian taxation changes implemented in late 2009 which would have significantly limited the future participation in the plan. The Company does not expect it will make any future allocations under MGSSAP.

The total number of shares purchased under the MGSSAP was limited in any financial year to 3 per cent of the Company's shares as at the beginning of that financial year.

The shares allocated under the MGSSAP were either newly issued shares or shares acquired on-market by the MGSSAP Plan Company, at the direction of the Company.

Shares acquired under the MGSSAP cannot be sold, transferred or disposed of for a period of six months from the date that the shares are transferred into a participating employee's name except in special circumstances if the employee resigns. The shares held in the MGSSAP are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

Shares held in the MGSSAP will be withdrawn on the earlier of:

- an employee's resignation from the Company or a related entity;
- upon request by the employee (after the expiration of the non-disposal period); and
- 10 years from the date that the shares are registered in an employee's name.

In all other respects, the shares rank equally with all other fully paid ordinary shares then on issue.

Previously, the Eligible Employees were Australian based permanent full-time or part-time employees or fixed term contract employees of the Company or a related company who either received available profit share in the relevant year of at least \$1,000 in total or allocated at least \$1,000 in available commission towards the MGSSAP.

The Macquarie Bank Executive Director Share Acquisition Plan (MBEDSAP) was a sub-plan of the MBSSAP which was created in 2003 and was open to eligible Executive Directors. The disposal and forfeiture restrictions in the MBEDSAP differ to those in the MBSSAP. The Company subsequently introduced a Macquarie Group Executive Director Share Acquisition Plan (MGEDSAP) on the same terms but no offers have been made under the plan.

In April 2008, a further sub-plan of the MGSSAP was created, the Macquarie Group Executive Committee Acquisition Plan, whereby members of the Company's Executive Committee were required to contribute certain proportions of their annual profit share to acquire Company shares, which must be held for at least three years. Further information on this is provided in the Remuneration Report. The first offers under this sub-plan were made in May 2008. The Company does not intend making any further allocations under this sub-plan, as Executive Committee members now receive the equity component of their retained profit share under the Macquarie Group Employee Retained Equity Plan (see above).

No offers under the MGSSAP (including the Macquarie Group Executive Committee Acquisition Plan) were made during the year 31 March 2011. During the year ended 31 March 2010 a total of 106 staff participated in the MGSSAP.

In July 2009, 27,391 MGL shares were issued based on the issue price of \$33.49. In December 2009, 1,194 MGL shares were issued based on the issue price of \$47.99.

Non-Executive Director Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL also introduced the Macquarie Bank Non-Executive Director Share Acquisition Plan whereby each financial year certain Australian based Non-Executive Directors (NEDs) of the Macquarie Group of companies were given the opportunity to contribute some or all of their future pre-tax remuneration from the Macquarie Group to acquire Macquarie Bank Limited shares. The Company has since introduced a Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) on the same terms. The Australian taxation changes referred to above in respect of the MGSSAP also apply to the NEDSAP. Accordingly, the Company has currently suspended new offers under the NEDSAP and does not expect to make any future allocations under the plan.

Previously, NEDs could elect to participate in the NEDSAP by nominating a minimum of \$1,000 of their NED remuneration per buying period to go towards the NEDSAP. Participating NEDs could also subsequently apply to reduce their previously nominated contribution provided that the relevant buying period has not commenced.

The shares were acquired at prevailing market prices. Brokerage fees were applied to the NEDs' account.

Shares acquired under the NEDSAP cannot be sold, transferred or disposed of for a period of six months from the date that the shares were transferred into a NED's name except in special circumstances if the NED resigns. The shares held in the NEDSAP are also subject to forfeiture by a NED in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

Shares held in the NEDSAP will be withdrawn on the earlier of:

- the participant ceasing to be a NED of the Company;
- upon request by the NED (after the expiration of the non-disposal period); and
- 10 years from the date that the shares are registered in a NED's name.

In all other respects, shares rank equally with all other fully paid ordinary shares then on issue.

Shares resulting from participation in the NEDSAP may count towards meeting the minimum shareholding requirements of NEDs.

No offers under the NEDSAP were made during the year ended 31 March 2011. The last offer was made during May 2009 and one NED participated in the NEDSAP. In June 2009, 3,639 MGL shares were acquired on-market.

Notes to the financial statements

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	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
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Note 37

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

Contingent liabilities exist in respect of:

Guarantees	330	321	1,410	769
Indemnities	2	6	–	–
Letters of credit	122	130	–	–
Performance related contingents	89	95	–	–
Total contingent liabilities¹	543	552	1,410	769

Commitments exist in respect of:

Undrawn credit facilities	5,689	3,860	–	–
Forward asset purchases	1,627	1,087	–	–
Total commitments²	7,316	4,947	–	–
Total contingent liabilities and commitments	7,859	5,499	1,410	769

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 38

Capital and other expenditure commitments

Capital and other expenditure commitments expected to be incurred:

Not later than one year	127	36	–	–
Later than one year and not later than five years	26	50	–	–
Later than five years	50	–	–	–
Total capital and other expenditure commitments	203	86	–	–

Note 39

Lease commitments

Non-cancellable operating leases expiring:

Not later than one year	158	228	–	–
Later than one year and not later than five years	598	777	–	–
Later than five years	707	668	–	–
Total operating lease commitments	1,463	1,673	–	–

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

Note 40

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 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 and 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 2011, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was \$174 million negative value (2010: \$86 million negative value).

During the year the Consolidated Entity recognised \$nil (2010: \$2 million loss) 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 issued debt 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 2011, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$486 million positive value (2010: \$102 million positive value).

During the year fair value gains on the hedging instruments of \$385 million have been recognised (2010: \$241 million gains), offset by \$375 million (2010: \$233 million losses) of losses on the hedged item.

Net investment in foreign operations hedges: The Consolidated Entity has applied net investment hedging for foreign exchange risk arising from its non-core foreign operations.

At 31 March 2011, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was \$69 million positive value (2010: \$106 million positive value). During the year the Consolidated Entity recognised \$nil (2010: \$nil) in the income statement due to hedge ineffectiveness on net investment hedges.

The types of contracts which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross-currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Notes to the financial statements

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Note 40

Derivative financial instruments continued

The following table provides details of the Consolidated Entity's outstanding derivatives used for trading and in some cases for hedging purposes as at 31 March.

	Consolidated 2011				Consolidated 2010			
	Notional amount \$m	Asset revaluations \$m	Liability revaluations \$m	Net fair value \$m	Notional amount \$m	Asset revaluations \$m	Liability revaluations \$m	Net fair value \$m
Interest rate contracts								
Exchange traded	16,892	322	417	(95)	13,232	46	50	(4)
Forwards	11	–	–	–	2,060	52	69	(17)
Swaps	196,846	2,720	2,174	546	157,715	3,065	3,237	(172)
Options	17,071	36	304	(268)	1,939	5	4	1
Total interest rate contracts	230,820	3,078	2,895	183	174,946	3,168	3,360	(192)
Foreign exchange contracts								
Forwards	60,156	570	769	(199)	16,552	258	391	(133)
Swaps	63,593	1,038	1,134	(96)	59,284	744	885	(141)
Options	2,122	691	902	(211)	656	314	342	(28)
Total foreign exchange contracts	125,871	2,299	2,805	(506)	76,492	1,316	1,618	(302)
Equity contracts								
Exchange traded	58,163	930	1,263	(333)	18,189	186	187	(1)
Swaps	7,475	288	292	(4)	3,173	128	234	(106)
Options	59,210	1,428	1,508	(80)	36,350	994	856	138
Other	–	–	–	–	675	–	4	(4)
Total equity contracts	124,848	2,646	3,063	(417)	58,387	1,308	1,281	27
Commodity contracts								
Exchange traded	114,373	1,831	1,848	(17)	36,045	4,142	4,446	(304)
Forwards	83,787	6,345	5,975	370	60,804	5,174	4,851	323
Swaps	22,661	2,491	2,494	(3)	40,764	4,141	3,826	315
Options	16,653	2,495	2,492	3	86,168	2,312	2,324	(12)
Total commodity contracts	237,474	13,162	12,809	353	223,781	15,769	15,447	322
Total derivatives contracts outstanding	719,013	21,185	21,572	(387)	533,606	21,561	21,706	(145)

Note 41

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) 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 41.1

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 repaid, or the loss incurred in replicating a trading contract with a new counterparty.

The responsibility for approval of credit exposures is delegated to specific individuals by the Board of MGL. While Operating Groups are assigned modest levels of Credit discretions, all credit exposures above these levels are independently assessed by RMG. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood so that a balanced assessment can be made of the worst outcome against the expected rewards. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure that the most current information available on counterparties is taken into account.

Credit exposures for loans are evaluated as the full face value whereas exposures for derivatives are a function of potential market movements. When trading gives rise to settlement risk, this exposure is assessed as the full face value of the settlement amount. Credit exposures which fluctuate through the duration of the transaction are monitored daily. These include exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

To mitigate credit risk, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

All customers' counterparty limits and exposures are allocated an MGL rating on a 1 – 13 scale which broadly corresponds with Standard & Poor's and Moody's Investor Services credit ratings. Each MGL rating is assigned a Probability of Default estimate. Credit limits and exposures are also allocated a Loss Given Default ratio reflecting the estimated economic loss in the event of default occurring.

All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch report and FICC CreditWatch report. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and to manage the facilities through the impairment and provisioning process.

The Consolidated Entity's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, interests in associates and joint ventures or bank notes and coins.

Notes to the financial statements

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Note 41.1

Credit risk continued

Maximum exposure to credit risk

The tables below detail the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets.

	Due from financial institutions \$m	Cash collateral on securities borrowed and reverse repurchase agreements ¹ \$m	Trading portfolio \$m	Loan assets held at assets ² amortised cost \$m
Australia				
Governments	–	302	1,566	526
Financial institutions	2,870	1,226	334	847
Other	–	5	70	24,306
Total Australia	2,870	1,533	1,970	25,679
Asia Pacific				
Governments	–	3	614	2
Financial institutions	1,283	45	408	320
Other	–	1	69	326
Total Asia Pacific	1,283	49	1,091	648
Europe, Middle East and Africa				
Governments	–	217	174	–
Financial institutions	2,666	3,862	139	780
Other	–	293	43	3,201
Total Europe, Middle East and Africa	2,666	4,372	356	3,981
Americas				
Governments	–	916	329	63
Financial institutions	2,998	1,445	670	2,163
Other	–	475	1,638	13,482
Total Americas	2,998	2,836	2,637	15,708
Total	9,817	8,790	6,054	46,016
Total gross credit risk				

¹ Classified based on the exposure to the underlying security borrowed.

² Included in Australia – Governments, are holdings of \$2,852 million (2010: \$4,496 million) issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the Consolidated Entity:

The Consolidated Entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in Macquarie Securities Group and Fixed Income, Currencies and Commodities. Stock borrowing and reverse repurchase arrangements entered into by the Consolidated Entity with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Other financial assets at fair value through profit or loss	Derivative financial instruments – positive values	Other assets	Debt investment securities available for sale ²	Life investment contracts and other unitholder investment assets	Credit commitments and contingent liabilities	Total
\$m	\$m	\$m	\$m	\$m	\$m	\$m
Consolidated 2011						
2,555	239	234	2,301	–	–	7,723
924	773	–	6,259	565	166	13,964
2,439	965	2,475	177	93	2,266	32,796
5,918	1,977	2,709	8,737	658	2,432	54,483
–	8	30	9	–	–	666
29	241	–	559	–	48	2,933
–	302	2,803	1	–	116	3,618
29	551	2,833	569	–	164	7,217
40	3	474	142	–	–	1,050
2,473	8,372	37	3,052	–	235	21,616
37	2,499	2,502	476	–	1,037	10,088
2,550	10,874	3,013	3,670	–	1,272	32,754
250	64	88	112	–	–	1,822
298	5,379	–	870	–	142	13,965
81	2,340	2,907	552	–	3,849	25,324
629	7,783	2,995	1,534	–	3,991	41,111
9,126	21,185	11,550	14,510	658	7,859	135,565
						135,565

Notes to the financial statements

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continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk continued

	Due from financial institutions \$m	Cash collateral on securities borrowed and reverse repurchase agreements ¹ \$m	Trading portfolio assets \$m	Loan assets held at amortised cost \$m
Australia				
Governments	–	668	3,541	279
Financial institutions	1,977	349	247	1,344
Other	–	–	130	25,541
Total Australia	1,977	1,017	3,918	27,164
Asia Pacific				
Governments	–	2	245	3
Financial institutions	1,488	316	33	215
Other	–	5	–	426
Total Asia Pacific	1,488	323	278	644
Europe, Middle East and Africa				
Governments	–	46	–	–
Financial institutions	2,418	3,857	39	899
Other	–	229	55	2,839
Total Europe, Middle East and Africa	2,418	4,132	94	3,738
Americas				
Governments	–	436	166	50
Financial institutions	2,368	955	400	1,943
Other	–	286	1,911	10,728
Total Americas	2,368	1,677	2,477	12,721
Total	8,251	7,149	6,767	44,267
Total gross credit risk				

¹ Classified based on the exposure to the underlying security borrowed.

² Included in Australia – Governments, are holdings of \$4,496 million (2009: \$ 1,458 million) issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the Consolidated Entity:

The Consolidated Entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in Macquarie Securities Group and Fixed Income, Currencies and Commodities. Stock borrowing and reverse repurchase arrangements entered into by the Consolidated Entity with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Other financial assets at fair value through profit or loss \$m	Derivative financial instruments – positive values \$m	Other assets \$m	Debt investment securities available for sale ² \$m	Life investment contracts and other unitholder investment assets \$m	Credit commitments and contingent liabilities \$m	Total \$m
Consolidated 2010						
1,478	548	226	3,716	–	–	10,456
689	380	–	7,384	685	98	13,153
4,654	478	2,987	441	35	1,281	35,547
6,821	1,406	3,213	11,541	720	1,379	59,156
–	4	40	–	–	–	294
50	244	–	41	–	91	2,478
1	105	2,204	1	–	172	2,914
51	353	2,244	42	–	263	5,686
–	85	414	86	–	87	718
686	7,874	38	2,994	–	248	19,053
–	3,381	1,608	506	–	1,037	9,655
686	11,340	2,060	3,586	–	1,372	29,426
–	88	233	162	–	11	1,146
284	6,328	7	759	–	179	13,223
76	2,046	2,727	786	–	2,295	20,855
360	8,462	2,967	1,707	–	2,485	35,224
7,918	21,561	10,484	16,876	720	5,499	129,492
129,492						

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk continued

	Other assets \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
Company 2011				
Australia				
Other	3	9,529	380	9,912
Total Australia	3	9,529	380	9,912
Company 2010				
Asia Pacific				
Other	–	–	484	484
Total Asia Pacific	–	–	484	484
Europe, Middle East and Africa				
Other	–	–	443	443
Total Europe, Middle East and Africa	–	–	443	443
Americas				
Other	–	1	103	104
Total Americas	–	1	103	104
Total	3	9,530	1,410	10,943
Total gross credit risk				10,943
Australia				
Governments	96	–	–	96
Other	8	11,635	342	11,985
Total Australia	104	11,635	342	12,081
Asia Pacific				
Other	–	2	277	279
Total Asia Pacific	–	2	277	279
Europe, Middle East and Africa				
Other	–	1	138	139
Total Europe, Middle East and Africa	–	1	138	139
Americas				
Other	–	5	12	17
Total Americas	–	5	12	17
Total	104	11,643	769	12,516
Total gross credit risk				12,516

Note 41.1

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 2011

	Neither past due nor impaired					Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m	Past due or individually impaired \$m	
Due from financial institutions	9,428	389	–	–	–	9,817
Cash collateral on securities borrowed and reverse repurchase agreements						8,790
Governments	793	645	–	–	–	1,438
Financial institutions	5,142	1,436	–	–	–	6,578
Other	663	111	–	–	–	774
Trading portfolio assets						6,054
Governments	2,292	391	–	–	–	2,683
Financial institutions	1,060	472	19	–	–	1,551
Other	222	1,532	66	–	–	1,820
Loan assets held at amortised cost						46,016
Governments	585	6	–	–	–	591
Financial institutions	2,913	1,168	7	–	22	4,110
Other	25,725	13,598	196	–	1,796	41,315
Other financial assets at fair value through profit or loss						9,126
Governments	2,845	–	–	–	–	2,845
Financial institutions	3,696	28	–	–	–	3,724
Other	681	1,851	–	–	25	2,557
Derivative financial instruments – positive values						21,185
Governments	295	19	–	–	–	314
Financial institutions	14,096	669	–	–	–	14,765
Other	2,904	3,202	–	–	–	6,106
Other assets						11,550
Governments	825	–	–	–	1	826
Financial institutions	–	–	–	–	37	37
Other	7,319	2,778	–	505	85	10,687
Debt investment securities available for sale						14,510
Governments	2,564	–	–	–	–	2,564
Financial institutions	10,708	32	–	–	–	10,740
Other	346	829	–	–	31	1,206
Life investment contracts and other unitholder investment assets						658
Financial institutions	565	–	–	–	–	565
Other	93	–	–	–	–	93
Total						127,706

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 2011

continued

Note 41.1

Credit risk continued

Credit quality of financial assets continued

Credit quality – Consolidated 2010

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
Due from financial institutions	8,218	33	–	–	–	8,251
Cash collateral on securities borrowed and reverse repurchase agreements						7,149
Governments	924	228	–	–	–	1,152
Financial institutions	5,422	55	–	–	–	5,477
Other	438	72	10	–	–	520
Trading portfolio assets						6,767
Governments	3,894	58	–	–	–	3,952
Financial institutions	623	65	31	–	–	719
Other	215	1,825	56	–	–	2,096
Loan assets held at amortised cost						44,267
Governments	271	2	–	–	59	332
Financial institutions	3,868	505	–	–	28	4,401
Other	25,339	11,876	161	–	2,158	39,534
Other financial assets at fair value through profit or loss						7,918
Governments	1,478	–	–	–	–	1,478
Financial institutions	1,709	–	–	–	–	1,709
Other	2,606	2,081	–	–	44	4,731
Derivative financial instruments – positive values						21,561
Governments	697	28	–	–	–	725
Financial institutions	14,178	648	–	–	–	14,826
Other	4,430	1,526	27	–	27	6,010
Other assets						10,484
Governments	913	–	–	–	–	913
Financial institutions	–	–	–	–	45	45
Other	5,871	2,895	–	566	194	9,526
Debt investment securities available for sale						16,876
Governments	3,964	–	–	–	–	3,964
Financial institutions	11,122	56	–	–	–	11,178
Other	774	932	–	–	28	1,734
Life investment contracts and other unitholder investment assets						720
Financial institutions	685	–	–	–	–	685
Other	35	–	–	–	–	35
Total						123,993

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

Note 41.1

Credit risk continued

Credit quality of financial assets continued

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

Credit quality – Company 2011

	Neither past due nor impaired					Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m			
Other assets							3
Other	3	–	–	–	–	–	3
Due from subsidiaries							9,530
Other	9,508	–	–	22	–	–	9,530
Total							9,533

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

Credit quality – Company 2010

	Neither past due nor impaired					Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m			
Other assets							104
Governments	96	–	–	–	–	–	96
Other	–	8	–	–	–	–	8
Due from subsidiaries							11,643
Other	11,607	–	–	36	–	–	11,643
Total							11,747

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

Financial assets whose terms have been renegotiated

The table below includes the carrying value, as at the reporting date, of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

	Consolidated 2011 \$m	Consolidated 2010 \$m	Company 2011 \$m	Company 2010 \$m
Loans assets held at amortised cost				
Other	56	84	–	–

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 41.1

Credit risk continued

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

Class of financial asset	Past due but not impaired					Fair value of collateral held	
	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 2011 \$m
Loan assets held at amortised cost							
Financial institutions	-	-	-	-	22	22	-
Other	924	219	102	233	318	1,796	2,295
Other financial assets at fair value through profit or loss							
Other	-	-	-	-	25	25	20
Other assets							
Government	1	-	-	-	-	1	-
Financial institutions	36	1	-	-	-	37	35
Other	30	34	8	1	12	85	2
Debt investment securities available for sale							
Other	-	-	-	-	31	31	-
Total	991	254	110	234	408	1,997	2,352

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(xiii) – Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, \$1,265 million (2010: \$1,100 million) relates to collateral held against past due 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. During the year, the Consolidated Entity took possession of fixed assets and property assets with a carrying value of \$413 million (2010: \$466 million). These assets are in the process of being sold.

Note 41.1

Credit risk continued

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

Class of financial asset	Past due but not impaired				Impaired \$m	Fair value of collateral held \$m	
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m		Total \$m	Consolidated 2010
Loan assets held at amortised cost							
Governments	24	33	2	–	–	59	48
Financial institutions	–	3	–	–	25	28	3
Other	1,007	219	89	317	526	2,158	2,551
Other financial assets at fair value through profit or loss							
Other	–	4	4	–	36	44	–
Derivative financial instruments – positive value							
Other	–	–	–	–	27	27	–
Other assets							
Financial institutions	38	–	–	–	7	45	36
Other	102	18	9	39	26	194	19
Debt investment securities available for sale							
Other	–	–	–	–	28	28	27
Total	1,171	277	104	356	675	2,583	2,684

Note 41.2

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, the MGL Board and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee. The Asset and Liability Committee includes the Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer, Treasurer and Operating Group Heads.

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

Liquidity policy

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. The key requirement of the policy is that MGL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited reduction in franchise businesses.

Reflecting the longer term nature of the Non-Banking Group asset profile, the Consolidated Entity 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. The key requirement of the policy is that MBL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited reduction in franchise businesses.

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

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continued

Note 41.2

Liquidity risk continued

Scenario analysis

Scenario analysis is central to the Consolidated Entity's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure the Consolidated Entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modelling includes 12 month liquidity scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes and a range of conservative assumptions are used with regard to access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

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

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves on derivatives and other margined positions. The size of the liquid asset portfolio must always exceed the minimum cash requirement as calculated in this model.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Consolidated Entity and defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of actions to be taken, and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG and is submitted to the Board for approval.

Funding transfer pricing

An internal funding transfer pricing framework is in place which aims to align businesses with the overall funding strategy of the Consolidated Entity. Under this framework the costs of long and short-term funding are charged out, and credits are made to Operating Groups that provide long term stable funding.

Contractual undiscounted cash flows

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

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Note 41.2

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 2011						
Due to financial institutions	442	374	2,669	4,627	617	8,729
Cash collateral on securities lent and repurchase agreements	3,227	3,390	–	–	–	6,617
Trading portfolio liabilities	–	5,808	–	–	–	5,808
Derivative financial instruments (trading)	–	20,973	–	–	–	20,973
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	7,485	2,008	3,299	624	13,416
Contractual amounts receivable	–	(7,548)	(2,243)	(3,724)	(926)	(14,441)
Deposits	26,642	5,615	2,781	337	14	35,389
Debt issued at amortised cost ¹	–	6,161	6,665	26,363	6,290	45,479
Other liabilities ²	–	11,979	–	–	–	11,979
Other financial liabilities at fair value through profit or loss	244	1,109	1,618	1,365	84	4,420
Life investment contracts and other unitholder liabilities	–	5,055	–	–	–	5,055
Macquarie Convertible Preference Securities	–	33	33	695	–	761
Subordinated debt	–	18	800	851	1,154	2,823
Total undiscounted cash flows	30,555	60,452	14,331	33,813	7,857	147,008
Contingent liabilities	–	543	–	–	–	543
Commitments	–	7,258	58	–	–	7,316
Total undiscounted contingent liabilities and commitments³	–	7,801	58	–	–	7,859

¹ Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

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

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.

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continued

Note 41.2

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 2010						
Due to financial institutions	329	223	2,782	5,920	1,381	10,635
Cash collateral on securities lent and repurchase agreements	798	6,648	45	–	–	7,491
Trading portfolio liabilities	–	5,432	–	–	–	5,432
Derivative financial instruments (trading)	–	21,140	–	–	–	21,140
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	4,399	3,782	4,397	281	12,859
Contractual amounts receivable	–	(4,396)	(3,815)	(4,547)	(564)	(13,322)
Deposits	14,739	5,357	2,334	90	–	22,520
Debt issued at amortised cost ¹	3	6,474	5,494	31,648	4,972	48,591
Other liabilities ²	–	10,399	–	–	–	10,399
Other financial liabilities at fair value through profit or loss	8	1,740	1,866	697	159	4,470
Life investment contracts and other unitholder liabilities	–	4,864	–	–	–	4,864
Macquarie Convertible Preference Securities	–	33	33	759	–	825
Subordinated debt	–	8	36	212	1,487	1,743
Total undiscounted cash flows	15,877	62,321	12,557	39,176	7,716	137,647
Contingent liabilities	–	552	–	–	–	552
Commitments	–	4,842	105	–	–	4,947
Total undiscounted contingent liabilities and commitments³	–	5,394	105	–	–	5,499

¹ Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

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

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.

Note 41.2

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
Company 2011						
Due to financial institutions	–	243	2,367	2,204	–	4,814
Deposits	–	48	–	–	–	48
Debt issued at amortised cost	–	62	281	2,195	3,346	5,884
Due to subsidiaries	1,025	934	–	–	–	1,959
Total undiscounted cash flows	1,025	1,287	2,648	4,399	3,346	12,705
Contingent liabilities	–	1,410	–	–	–	1,410
Total undiscounted contingent liabilities¹	–	1,410	–	–	–	1,410
Company 2010						
Due to financial institutions	–	–	2,328	5,008	–	7,336
Deposits	–	54	–	–	–	54
Debt issued at amortised cost	–	12	187	2,268	2,167	4,634
Due to subsidiaries	1,049	73	40	1,343	–	2,505
Total undiscounted cash flows	1,049	139	2,555	8,619	2,167	14,529
Contingent liabilities	–	769	–	–	–	769
Total undiscounted contingent liabilities¹	–	769	–	–	–	769

¹ 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.

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 41.3

Market risk

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

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

and to the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **Contingent Loss Limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- **Position Limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions; and
- **Value-at-Risk (VaR) Limits:** statistical measure based on a 10-day holding period and a 99 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

Note 41.3

Market risk continued

Value-at-Risk (VaR) figures

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.

	2011 Average \$m	2011 Maximum \$m	2011 Minimum \$m	2010 Average \$m	2010 Maximum \$m	2010 Minimum \$m
Consolidated						
Equities	9.53	19.30	4.35	6.66	20.92	2.80
Interest rates	5.83	10.72	3.67	4.34	6.65	3.09
Foreign exchange and bullion	3.61	10.55	1.08	3.59	10.50	0.57
Commodities	11.64	16.34	7.63	10.95	16.98	5.37
Aggregate	16.00	23.50	11.04	14.26	26.70	6.06

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 and managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book. These residual risks have independent limits that are monitored by RMG.

Certain interest rate derivative transactions are undertaken to economically hedge interest rate risk associated with the MIPS. As the MIPS are classified as equity for accounting purposes and the hedge accounting requirements cannot be met, the volatility arising from recognising these derivatives at fair value is reflected in the income statement.

Interest rate sensitivity on these derivatives is not reflected in the VaR numbers above. Indicatively, a 50 basis point increase or decrease in interest rates would result in a decrease or increase in operating profit before income tax of \$3 million (2010: \$3 million) respectively.

Other than the volatility on the derivatives described above, there are no material non-traded interest rate risks within the Consolidated Entity.

Notes to the financial statements

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continued

Note 41.3

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 group is designed to reduce the sensitivity of the group's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD, GBP, HKD and CAD.

	2011		2010	
	Movement in exchange rates %	Sensitivity of equity after tax \$m	Movement in exchange rates %	Sensitivity of equity after tax \$m
Consolidated				
Australian dollar	+10	(326.2)	+10	(174.3)
Australian dollar	-10	398.6	-10	213.0

Note 41.3

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:

Geographic region	Movement in equity price %	2011		2010		Consolidated
		Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m	Movement in equity price %	Sensitivity of profit before tax \$m	
Listed						
Australia	+10	3.3	117.6	+10	2.6	59.5
Asia Pacific	+10	–	5.1	+10	–	4.5
Europe, Middle East and Africa	+10	1.5	4.1	+10	0.2	1.9
Americas	+10	4.0	11.3	+10	3.9	4.2
Unlisted	+10	0.2	41.2	+10	0.1	27.9
Listed						
Australia	-10	(3.3)	(117.6)	-10	(2.2)	(59.5)
Asia Pacific	-10	–	(5.1)	-10	–	(4.5)
Europe, Middle East and Africa	-10	(1.5)	(4.1)	-10	–	(1.9)
Americas	-10	(3.5)	(11.3)	-10	(3.9)	(4.2)
Unlisted	-10	(0.2)	(41.2)	-10	(0.1)	(27.9)

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	Consolidated 2011			Consolidated 2010		
	Average balance \$m	Income/ expense \$m	Average rate %	Average balance \$m	Income/ expense \$m	Average rate %
Assets						
Interest bearing assets						
Due from financial institutions	8,169	215	2.6	8,419	151	1.8
Cash collateral on securities borrowed and reverse repurchase agreements	8,982	162	1.8	6,694	112	1.7
Trading portfolio assets	8,121	345	4.2	7,196	357	5.0
Loan assets held at amortised cost	47,437	3,174	6.7	46,093	2,798	6.1
Other financial assets at fair value through profit or loss	9,330	672	7.2	5,023	374	7.4
Investment securities available for sale	14,524	720	5.0	19,367	789	4.1
Interest in associates and joint ventures accounted for using the equity method	338	16	4.7	358	10	2.8
Total interest bearing assets	96,901	5,304		93,150	4,591	
Total non-interest bearing assets	58,923			57,151		
Total assets	155,824			150,301		
Liabilities						
Interest bearing liabilities						
Due to financial institutions	9,664	(443)	4.6	10,693	(408)	3.8
Cash collateral on securities lent and repurchase agreements	7,432	(327)	4.4	7,657	(352)	4.6
Trading portfolio liabilities	1,720	(53)	3.1	988	(46)	4.7
Deposits	31,749	(1,190)	3.7	20,484	(600)	2.9
Debt issued at amortised cost	41,858	(1,748)	4.2	45,716	(1,788)	3.9
Other financial liabilities at fair value through profit or loss	4,209	(124)	2.9	4,912	(181)	3.7
Other liabilities	522	(2)	0.4	305	(16)	5.2
Loan capital						
Macquarie Convertible Preference Securities	594	(67)	11.2	592	(67)	11.3
Subordinated debt	1,745	(75)	4.3	1,685	(53)	3.1
Total interest bearing liabilities	99,493	(4,029)		93,032	(3,511)	
Total non-interest bearing liabilities	44,701			46,316		
Total liabilities	144,194			139,348		
Net assets	11,630			10,953		
Equity						
Contributed equity						
Ordinary share capital	7,063			6,063		
Treasury shares	(666)			(36)		
Exchangeable shares	117			133		
Reserves	331			273		
Retained earnings	4,239			3,898		
Total capital and reserves attributable to ordinary equity holders of MGL	11,084			10,331		
Non-controlling interest	546			622		
Total equity	11,630			10,953		

Note 43

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

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans;

- for financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the basic interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilises observable market parameters, market practice is to quote parameters equivalent to an interbank credit rating (that is, all counterparties are assumed to have the same credit quality). Consequently, a CVA calculation is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value; and
- the Consolidated Entity's own credit risk is factored into the valuations of liabilities measured at fair value via debit valuation adjustments (DVA). This is because credit risk affects what the transaction price of the liability would have been in an arm's length exchange motivated by normal business considerations (e.g. it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the Consolidated Entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the Consolidated Entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

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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continued

Note 43

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 loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value;

- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the 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 separate 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.

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 as at 31 March 2011:

	2011 Carrying value \$m	2011 Fair value \$m	2010 Carrying value \$m	2010 Fair value \$m
Consolidated				
Assets				
Due from financial institutions	9,817	9,817	8,251	8,251
Loan assets held at amortised cost	46,016	46,059	44,267	44,486
Total assets	55,833	55,876	52,518	52,737
Liabilities				
Due to financial institutions	7,810	7,796	9,927	9,720
Deposits	35,338	35,387	22,484	22,492
Debt issued at amortised cost	41,177	41,523	42,614	42,784
Macquarie Convertible Preference Securities	595	637	593	637
Subordinated debt at amortised cost	1,832	1,823	916	910
Total liabilities	86,752	87,166	76,534	76,543
Company				
Assets				
Due from subsidiaries	9,530	9,530	11,643	11,643
Total assets	9,530	9,530	11,643	11,643
Liabilities				
Due to financial institutions	4,451	4,375	6,922	6,685
Deposits	52	52	54	54
Debt issued at amortised cost	4,116	4,186	3,154	3,352
Due to subsidiaries	1,951	1,989	2,357	2,425
Total liabilities	10,570	10,602	12,487	12,516

Note 43

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
Assets				Consolidated 2011
Trading portfolio assets	10,312	4,097	489	14,898
Other financial assets at fair value through profit or loss	5,577	5,800	291	11,668
Derivative financial instruments – positive values	3,465	17,481	239	21,185
Investment securities available for sale	14,628	1,829	594	17,051
Life investment contracts and other unitholder investment assets	1,198	3,861	–	5,059
Total assets	35,180	33,068	1,613	69,861
Liabilities				
Trading portfolio liabilities	4,462	1,346	–	5,808
Derivative financial instruments – negative values	3,768	17,629	175	21,572
Other financial liabilities at fair value through profit or loss	45	4,142	152	4,339
Life investment contracts and other unitholder liabilities	1,201	3,854	–	5,055
Subordinated debt at fair value through profit or loss	–	467	–	467
Total liabilities	9,476	27,438	327	37,241
Assets				Consolidated 2010
Trading portfolio assets	9,220	2,494	424	12,138
Other financial assets at fair value through profit or loss	3,279	5,578	315	9,172
Derivative financial instruments – positive values	3,269	18,016	276	21,561
Investment securities available for sale	16,176	1,519	526	18,221
Life investment contracts and other unitholder investment assets	940	3,906	–	4,846
Total assets	32,884	31,513	1,541	65,938
Liabilities				
Trading portfolio liabilities	4,350	1,079	3	5,432
Derivative financial instruments – negative values	3,862	17,416	428	21,706
Other financial liabilities at fair value through profit or loss	85	4,270	58	4,413
Life investment contracts and other unitholder liabilities	944	3,920	–	4,864
Subordinated debt at fair value through profit or loss	–	499	–	499
Total liabilities	9,241	27,184	489	36,914

Notes to the financial statements

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continued

Note 43

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 year ended 31 March 2011:

	Trading portfolio assets \$m	Other financial assets at fair value through profit or loss \$m
Balance at the beginning of the financial year	424	315
Purchases	306	86
Sales	(273)	(34)
Issues	–	7
Settlements	–	(123)
Net transfers into/out of level 3	(69)	66
Fair value gains/(losses) recognised in the income statement ¹	101	(26)
Fair value gains recognised in other comprehensive income ¹	–	–
Balance at the end of the financial year	489	291
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year ¹	88	2

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 financial instruments – positive values are \$239 million (2010: \$276 million) and derivative financial instruments – negative values are \$175 million (2010: \$428 million).

Investment securities available for sale \$m	Trading portfolio liabilities \$m	Other financial liabilities at fair value through profit or loss \$m	Derivative financial instruments (net replacement values) ² \$m	Total \$m
Consolidated 2011				
526	(3)	(58)	(152)	1,052
225	–	(12)	30	635
(89)	–	46	(98)	(448)
–	–	(15)	(59)	(67)
(16)	–	5	44	(90)
(36)	3	(118)	128	(26)
(18)	–	–	171	228
2	–	–	–	2
594	–	(152)	64	1,286
–	–	–	(4)	86

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Note 43

Fair values of financial assets and liabilities continued

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

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial year ended 31 March 2010:

	Trading portfolio assets \$m	Other financial assets at fair value through profit or loss \$m
Balance at the beginning of the financial year	755	126
Purchases	503	145
Sales	(752)	(14)
Issues	–	–
Settlements	–	–
Net transfers into/out of Level 3	(83)	42
Fair value gains/(losses) recognised in the income statement ¹	1	16
Fair value losses recognised in other comprehensive income ¹	–	–
Balance at the end of the financial year	424	315
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	19	16

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 financial instruments – positive values are \$276 million and derivative financial instruments – negative values are \$428 million.

Investment securities available for sale \$m	Trading portfolio liabilities \$m	Other financial liabilities at fair value through profit or loss \$m	Derivative financial instruments (net replacement values) ² \$m	Total \$m
Consolidated 2010				
968	–	–	(88)	1,761
211	(25)	(55)	(43)	736
(328)	27	–	15	(1,052)
2	–	–	(20)	(18)
(11)	–	–	31	20
(138)	–	–	19	(160)
(82)	(5)	(3)	(66)	(139)
(96)	–	–	–	(96)
526	(3)	(58)	(152)	1,052
(22)	(2)	(3)	(85)	(77)

Notes to the financial statements

for the financial year ended 31 March 2011

continued

Note 43

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 2011 \$m	Consolidated 2010 \$m
Balance at the beginning of the financial year	38	55
Deferral on new transactions	17	25
Amounts recognised in the income statement during the year	(28)	(42)
Balance at the end of the financial year	27	38

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cashflows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit and loss \$m	Equity \$m	Profit and loss \$m	Equity \$m
Product type				
Equity and equity linked products	25	20	(31)	(3)
Asset backed products	16	13	(15)	(4)
Commodity products	17	–	(16)	–
Credit products	3	–	(3)	–
Interest rate products	1	–	(1)	–
Total	62	33	(66)	(7)
Product type				
Equity and equity linked products	32	13	(32)	(2)
Asset backed products	30	–	(28)	–
Commodity products	24	–	(24)	–
Credit products	3	–	(3)	–
FX products	2	–	(2)	–
Interest rate products	1	–	(1)	–
Total	92	13	(90)	(2)

Note 44

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 2011 \$'000	Consolidated 2010 \$'000	Company 2011 \$'000	Company 2010 \$'000
PwC – Australian firm				
Audit and review of financial reports of the Company or any subsidiary of the Company	6,309	5,963	15	14
Other audit-related work	1,311	1,201	–	–
Other assurance services	1,527	1,478	287	564
Total audit and other assurance services	9,147	8,642	302	578
Advisory services	349	717	–	–
Taxation	444	535	–	–
Total remuneration paid to PwC – Australian firm	9,940	9,894	302	578
Related practices of PwC – Australian firm (including PwC – overseas firms)				
Audit and review of financial reports of the Company or any subsidiary of the Company	7,672	7,718	–	–
Other audit-related work	72	157	–	–
Other assurance services	236	430	–	–
Total audit and other assurance services	7,980	8,305	–	–
Advisory services	79	694	–	–
Taxation	1,813	3,570	–	–
Total remuneration paid to related practices of PwC – Australian firm	9,872	12,569	–	–
Total remuneration paid to PwC	19,812	22,463	302	578

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.

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Note 45

Acquisitions and disposals of subsidiaries and businesses

Significant entities and businesses acquired or consolidated due to acquisition of control:

– Sal. Oppenheim

On 7 April 2010, a subsidiary of the Company acquired the equity derivatives, cash equity sales and research businesses of Sal. Oppenheim jr. & Cie.

– Macquarie AirFinance

On 1 November 2010, a subsidiary of the Company acquired an additional 62.5 per cent interest to bring its interest to 100 per cent in Macquarie AirFinance Limited, an aircraft lessor.

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

CMC Railroad Inc., Innovest Kapitalanlage AG, Latitude FX Limited, Liberty Green Renewables Indiana LLC, Outplan Pty Ltd, Presidio Partners LLC, Rismark Limited and Shinhan Macquarie Financial Advisory Co. Limited.

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

	2011 \$m	2010 \$m
Fair value of net assets acquired		
Cash, other financial assets and other assets	4,833	1,191
Goodwill and other intangible assets	91	738
Property, plant and equipment	2,370	16
Assets of disposal groups classified as held for sale	5	48
Payables, provisions, borrowings and other liabilities	(6,857)	(1,021)
Liabilities of disposal groups classified as held for sale	(4)	(43)
Non-controlling interests	(4)	(2)
Total fair value of net assets acquired¹	434	927
Consideration		
Cash consideration ²	231	748
Deferred consideration	–	125
Extinguishment of loan asset	–	56
Fair value of previously held interest	126	–
Total consideration	357	929
Net cash flow		
Cash consideration ²	(231)	(748)
Less:		
Cash and cash equivalents acquired	1,609	439
Net cash inflow/(outflow)	1,378	(309)

¹ In connection with the acquisition of Sal. Oppenheim, the business was acquired at a \$59 million discount to fair value, which included amounts received to cover expenses related to integrating the business. The actual incurred expenses have been offset against the amount received within note 2 – Profit for the financial year.

² Prior year comparatives include costs directly attributable to the acquisitions.

Included in the current year results for the Consolidated Entity is profit of \$39 million and revenue of \$106 million from Macquarie AirFinance Limited since the date of acquisition. If this acquisition had taken place on 1 April 2010, the impact on the current year results for the Consolidated Entity would have been profit of \$90 million and revenue of \$272 million. The operating results of the other acquisitions did not have 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 financial year has arisen due to the value of the entities of businesses acquired over their individual asset values, the employees acquired as part of the business and synergies the Consolidated Entity expects to realise from the acquisitions.

The 31 March 2010 comparatives relate principally to Blackmont Capital, Delaware Investments, Fox-Pitt Kelton Group and Tristone Capital Global Inc., being the significant entities or businesses acquired or consolidated due to acquisition of control.

Note 45

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities and businesses disposed of or deconsolidated due to loss of control:

- Macquarie Asset Leasing Trust

On 26 November 2010, a subsidiary of the Company disposed of its 100 per cent interest in Macquarie Asset Leasing Trust.

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

Advanced Markets Holdings LLC, Everest Absolute Return II Limited, Latitude FX Limited, LexMac Energy Oil & Gas, OzForex Pty Limited, SiCURAnt InvestCo LP SPRL, Turramurra Limited, UCITS – Emerging Markets Fund, and Veracity Asset Transformation Limited.

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

	2011 \$m	2010 \$m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash, other financial assets and other assets	133	315
Goodwill and other intangible assets	24	18
Property, plant and equipment	513	89
Assets of disposal groups classified as held for sale	45	15
Payables, provisions, borrowings and other liabilities	(441)	(112)
Liabilities of disposal groups classified as held for sale	(40)	–
Non-controlling interests	(9)	–
Total carrying value of assets and liabilities disposed of or deconsolidated	225	325
Consideration		
Cash consideration	157	473
Consideration received in equity	86	91
Deferred consideration	–	14
Total consideration	243	578
Net cash flow		
Cash consideration	157	473
Less:		
Cash and cash equivalents disposed of or deconsolidated	(65)	(36)
Net cash inflow	92	437

The 31 March 2010 comparatives relate principally to Macquarie Communications Infrastructure Management Limited, being the significant entity disposed of.

Note 46

Events after the Reporting Period

There were no material events subsequent to 31 March 2011 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 139 to 249 are in accordance with the *Corporations Act 2001 (Cth)* including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001 (Cth)* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company and Consolidated Entity's financial position as at 31 March 2011 and of their performance, as represented by the results of their operations and its cash flows, 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 as issued by International Accounting Standards Board; and
- d) the audited remuneration disclosures set out on pages 77 to 128 of the Directors' Report comply with Australian Accounting Standards and the *Corporations Regulations 2001 (Cth)*.

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.



Kevin McCann, AM
Independent Director and
Chairman



Nicholas Moore
Managing Director and
Chief Executive Officer
Sydney
29 April 2011

Independent audit report

To the members of Macquarie Group Limited



Report on the financial report

We have audited the accompanying financial report of Macquarie Group Limited (the Company), which comprises the statement of financial position as at 31 March 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001 (Cth)* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001 (Cth)*.

Auditor's opinion

In our opinion:

- a) the financial report of Macquarie Group Limited is in accordance with the *Corporations Act 2001 (Cth)*, including:
 - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 March 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001 (Cth)*; and
- b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Independent audit report

To the members of Macquarie Group Limited continued

PRICEWATERHOUSECOOPERS 

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 77 to 128 of the directors' report for the year ended 31 March 2011. 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 (Cth)*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Group Limited for the year ended 31 March 2011, complies with section 300A of the *Corporations Act 2001 (Cth)*.



PricewaterhouseCoopers



DH Armstrong
Partner

Sydney
29 April 2011

Macquarie Group Limited

Ten year history

With the exception of 31 March 2005, the financial information presented below has been based on the Australian Accounting Standards adopted at the end of each balance date. The financial information for the full years ended 31 March 2005 - 2011 is based on the reported results using the Australian Accounting Standards that also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Years ended 31 March	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Income statement (\$ million)										
Total income	1,822	2,155	2,823	4,197	4,832	7,181	8,248	5,526	6,638	7,644
Total expenses	(1,467)	(1,695)	(2,138)	(3,039)	(3,545)	(5,253)	(6,043)	(4,537)	(5,344)	(6,373)
Operating profit before income tax	355	460	685	1,158	1,287	1,928	2,205	989	1,294	1,271
Income tax expense	(76)	(96)	(161)	(288)	(290)	(377)	(317)	(15)	(201)	(282)
Profit for the year	279	364	524	870	997	1,551	1,888	974	1,093	989
Macquarie Income Preferred Securities distributions	–	–	–	(28)	(51)	(54)	(50)	(45)	(8)	(4)
Macquarie Income Securities distributions	(29)	(28)	(27)	(29)	(29)	(31)	(34)	(33)	(21)	(26)
Other non-controlling interests	–	(3)	(3)	(1)	(1)	(3)	(1)	(25)	(14)	(3)
Profit attributable to ordinary equity holders	250	333	494	812	916	1,463	1,803	871	1,050	956
Statement of financial position (\$ million)										
Total assets	30,234	32,462	43,771	67,980	106,211	136,389	167,250	149,144	145,940	157,568
Total liabilities	27,817	29,877	40,938	63,555	100,874	128,870	157,189	139,584	134,171	145,636
Net assets	2,417	2,585	2,833	4,425	5,337	7,519	10,061	9,560	11,769	11,932
Total loan assets	9,209	9,839	10,777	28,425	34,999	45,796	52,407	44,751	44,267	46,016
Impaired loan assets (net of provisions)	49	16	61	42	85	88	165	952	647	377
Share information¹										
Cash dividends per share (cents per share)										
Interim	41	41	52	61	90	125	145	145	86	86
Final	52	52	70	100	125	190	200	40	100	100
Special ²	–	50	–	40	–	–	–	–	–	–
Total	93	143	122	201	215	315	345	185	186	186
Basic earnings per share (cents per share)	132.8	164.8	233.0	369.6	400.3	591.6	670.6	309.6	320.2	282.5
Share price at 31 March (\$) ¹	33.26	24.70	35.80	48.03	64.68	82.75	52.82	27.05	47.25	36.60
Ordinary share capital (million shares) ³	198.5	204.5	215.9	223.7	232.4	253.9	274.6	283.4	344.2	346.8
Market capitalisation at 31 March ¹ (fully paid ordinary shares) (\$ million)	6,602	5,051	7,729	10,744	15,032	21,010	14,504	7,666	16,266	12,693
Net tangible assets per ordinary share (\$) ⁴	7.94	8.23	10.72	13.97	16.63	22.86	28.18	23.72	25.82	26.16
Ratios (%)										
Return on average ordinary shareholders' funds	18.7	18.0	22.3	29.8	26.0	28.1	23.7	9.9	10.1	8.8
Dividend payout ratio	73.6	87.4 ²	53.2	53.2	54.4	54.3	52.2	60.2	60.4	67.3
Expense/income ratio	80.5	78.7	75.7	72.4	73.4	73.2	73.3	82.1	80.5	83.4
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.2	0.0	0.3	0.2	0.2	0.1	0.3	1.9	0.8	0.4
Assets under management (\$ billion)⁵										
Staff numbers ⁶	4,726	4,839	5,716	6,556	8,183	10,023	13,107	12,716	14,657	15,556

¹ The MBL (now MGL) ordinary shares were quoted on the Australian Stock Exchange (now Australian Securities Exchange) on 29 July 1996.

² The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of 50 cents per share, the payout ratio would have been 56.8 per cent.

³ Number of fully paid ordinary shares at 31 March, excluding options and partly paid shares.

⁴ Net tangible assets include intangibles (net of associated deferred tax assets and deferred liabilities) within assets and disposal groups held for sale.

⁵ The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with methodology.

⁶ Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).

Macquarie Group Limited

Investor information

2011 Shareholder calendar

Date	Event
29 April	Full-year result announcement
13 May	Record date for final ordinary dividend
4 July	Payment date for final ordinary dividend
28 July	2011 Annual General Meeting
30 September	Financial half-year end
28 October ¹	Half-year result announcement
11 November ¹	Record date for interim ordinary dividend
14 December ¹	Payment date of interim ordinary dividend

¹ These dates are subject to change

2011 Annual General Meeting (AGM)

Macquarie Group's AGM will be held at 10.30 am on Thursday, 28 July 2011 at the Hilton Hotel (Grand Ballroom), 488 George Street, Sydney NSW. Details of the business of the meeting will be forwarded to shareholders separately.

Stock Exchange listing

Macquarie Group Limited is listed on the ASX and its ordinary shares trade under the code MQG.

Macquarie Convertible Preference Securities are listed on the ASX and trade under the code MQCPA.

Macquarie Preferred Membership Interests are listed on the Singapore Stock Exchange and trade under the stock code 40RB.

Dividend details

Macquarie Group generally pays a dividend on its fully paid ordinary shares twice a year following the interim and final results announcements. The proposed dates for the 2011 dividends are as follows:

Dividend announcement	Record date	Proposed payment date
29 April 2011	13 May 2011	4 July 2011
28 Oct 2011 ¹	11 Nov 2011 ¹	14 Dec 2011 ¹

¹ These dates are subject to change

Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie shares rather than receiving dividends in cash.

American Depository Receipt (ADR) program

Macquarie Group's ADR program effectively enables US investors to trade Macquarie Group shares in US dollars.

Macquarie ADRs are negotiable certificates issued by the BNY Mellon, with one ADR representing one Macquarie share. They are traded under the symbol MQBKY and are classified as Level 1. They are not listed on any exchanges and are only traded over-the-counter via brokers. One ADR represents one Macquarie Group Limited share. Distributions are paid to investors in US dollars

The ADR register is kept at:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
USA

Toll-free telephone number for domestic callers: 1-888-BNY-ADRs

Telephone numbers for international callers: +1 201-680-6825

Further information can be found at www.bnymellon.com/shareowner.

Voting rights

At meetings of members or classes of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

- (i) one vote for each fully paid share held, and
- (ii) that proportion of a vote for any partly paid ordinary share calculated in accordance with clause 8.18 of the Macquarie constitution.

A copy of the constitution is available at macquarie.com.au/au/about_macquarie/corporate_governance.htm

Macquarie Convertible Preferred Securities (Macquarie CPS)

Holders of Macquarie CPS have no voting rights in respect of Macquarie Group Limited prior to conversion. Macquarie CPS may convert into a variable number of ordinary shares on 30 June 2013 or at other times, subject to various conditions.

Macquarie Preferred Membership Interests (PMIs)

PMIs may be exchanged for preference shares in Macquarie Group Limited under certain circumstances. Prior to exchange, PMIs have no voting rights in respect of Macquarie Group Limited (MGL) before such an exchange. After an exchange the preference share holder has a right to vote at any general meeting of MGL only in one or more of the following circumstances:

- (a) on any proposal:
 - (i) to reduce the share capital of MGL, or
 - (ii) that affects the rights attached to the Preference Shares, or
 - (iii) to wind up MGL, or
 - (iv) for the disposal of the whole of the property, business and undertaking of MGL, or
- (b) on any resolution to approve the terms of a share buy back agreement, or
- (c) during a period in which a Dividend or part of a Dividend is in arrears, or
- (d) during the winding up of MGL,

in which case the Holders of Preference Shares have the same rights as to manner of attendance and to voting as holders of Ordinary Shares with one vote per Preference Share.

In these circumstances, the preference shares carry the same voting rights as holders of ordinary shares with one vote per preference share.

Enquiries

Investors who wish to enquire about any administrative matter relating to their Macquarie Group Limited shareholding are invited to contact the Share Registry office at:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Victoria 8060 Australia

Telephone (within Australia): 1300 554 096
Telephone (international) +61 3 9415 4137
Facsimile: +61 3 9473 2500

Email: web.queries@computershare.com.au
Website: www.computershare.com/au

All other enquiries relating to a Macquarie Group Limited share investment can be directed to:

Investor Relations

Macquarie Group Limited
Level 7, No.1 Martin Place
Sydney New South Wales 2000 Australia

Telephone: +61 2 8232 5006
Facsimile: +61 2 8232 6346

Email: investorrelations@macquarie.com
Website: macquarie.com.au/investorrelations

Macquarie Group's Company Secretary, Dennis Leong, may be contacted on the above numbers.

Website

To view the Shareholder Review, the Interim and Annual Reports, presentations, dividend information and other investor information, visit macquarie.com.au/investorrelations

Macquarie Group Limited

Investor information

continued

Fully paid ordinary shares

Twenty largest ordinary shareholders at 20 April 2011:	Ordinary Shares	Percentage of Ordinary Shares
HSBC Custody Nominees (Australia) Limited	68,746,735	19.82
JP Morgan Nominees Australia Limited	49,733,842	14.34
National Nominees Limited	39,798,192	11.48
Citicorp Nominees Pty Limited	16,468,858	4.75
Bond Street Custodians Limited – MEREP Trustee – RSU Control	12,586,015	3.63
Cogent Nominees Pty Limited	7,142,928	2.06
Citicorp Nominees Pty Limited – CFS WSLE Geared Shr Fnd A/C	5,711,648	1.65
Argo Investments Limited	3,221,636	0.93
AMP Life Limited	3,123,338	0.90
JP Morgan Nominees Australia Limited – Cash Income A/C	2,838,534	0.82
Queensland Investment Corporation	2,177,170	0.63
Australian Reward Investment Alliance	1,043,265	0.30
Bond Street Custodians Limited – MEREP TRUSTEE-DSU UNALL	926,258	0.27
UBS Nominees Pty Ltd	849,600	0.24
Cogent Nominees Pty Limited – SMP Accounts	750,096	0.22
HSBC Custody Nominees (Australia) Limited – A/C 2	688,460	0.20
RBC Dexia Investor Services Australia Nominees Pty Limited – MLCI A/C	651,779	0.19
Bond Street Custodians Limited – Trustee A/C – USA	637,218	0.18
UBS Wealth Management Australia Nominees Pty Ltd	555,254	0.16
Citicorp Nominees Pty Limited – CFSIL CWLTH AUST SHS 18 A/C	551,519	0.16
Total	218,202,345	62.92

Substantial shareholders

At 28 April 2011 the following shareholders were registered by the Company as a substantial shareholder, having declared a relevant interest in accordance with the *Corporations Act 2001 (Cth)*, in the voting shares below:

Holder	Ordinary Shares	Date of notice
Macquarie Group Limited	17,238,801	1 June 2010

Details of the spread of ordinary shareholdings at 20 April 2011 are as follows:

Range	Shareholders	Shares
1–1,000		103,340
1,001–5,000		22,826
5,001–10,000		1,558
10,001–100,000		862
100,001 shares and over		97
Total	128,683	346,814,961

4,270 shareholders (representing 29,876 fully paid shares) held less than a marketable parcel.

- All 32,781,598 options on issue at 20 April 2011 are held by participants in the Group's Option Plan.
- 786,392 exchangeable shares on issue at 20 April 2011 are held by former key employees of Orion Financial Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for one for shares in Macquarie Group Limited. They expire in November 2017 and carry no Macquarie Group Limited voting rights.
- There are also retention arrangements in place with key former Orion employees, under which a total of 66,668 new Macquarie Group Limited ordinary shares may be allocated within five years from the date of the Orion acquisition.
- 1,146,381 exchangeable shares on issue at 20 April 2011 are held by former key employees of Tristone Capital Global Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for one for shares in Macquarie Group Limited. They must be exchanged by August 2019 and carry no Macquarie Group Limited voting rights.
- There are also retention arrangements in place with key former Tristone employees, under which a further 83,338 Exchangeable Shares and 81,884 options over Exchangeable Shares are also on issue.

Convertible Preference Securities

	Convertible Preference Securities	Percentage of Convertible Preference Securities
Twenty largest Securityholders at 20 April 2011:		
Questor Financial Services Limited – TPS RF A/C	299,159	4.99
RBC Dexia Investor Services Australia Nominees Pty Limited – MLCI A/C	276,486	4.61
JP Morgan Nominees Australia Limited	243,591	4.06
National Nominees Limited	82,264	1.37
Citicorp Nominees Pty Limited	64,055	1.07
HSBC Custody Nominees (Australia) Limited	64,044	1.07
RBC Dexia Investor Services Australia Nominees Pty Limited – GSENIP A/C	55,616	0.93
JMB Pty Limited	50,000	0.83
RBC Dexia Investor Services Australia Nominees Pty Limited – NMSMT A/C	44,912	0.75
Cogent Nominees Pty Limited	44,849	0.75
ABN AMRO Clearing Sydney Nominees Pty Ltd – Next Custodian A/C	42,110	0.70
MF Custodians Ltd	41,015	0.68
Questor Financial Services Limited – TPS PIP A/C	39,370	0.66
The Walter And Eliza Hall Institute Of Medical Research	37,000	0.62
BT Portfolio Services Limited – Halcagni Pty Ltd A/C	35,263	0.59
Namrog Investments Pty Ltd	30,000	0.50
Avanteos Investments Limited – Avanteos Super Fund NO 2 A/C	25,794	0.43
Mr Lesley Szekely, Mrs Suzaner Szekely, Ms Rachel Szekely & Mr Daniel Szekely – The Szekely Super Fund A/C	25,000	0.42
Art Gallery of NSW Foundation	24,885	0.41
Hestian Pty Ltd	21,700	0.36
Total	1,547,113	25.79

Details of the spread of Convertible Preference Securities holdings at 20 April 2011 were as follows:

Range	Holders	Securities
1–1,000	8,072	2,513,405
1,001–5,000	645	1,395,960
5,001–10,000	39	297,633
10,001–100,000	34	973,766
100,001 securities and over	3	819,236
Total	8,793	6,000,000

One securityholders (representing one Convertible Preference Security) held less than a marketable parcel.

Macquarie Preferred Membership Interests

As at 20 April 2011, the 400,000 convertible notes issued by Macquarie Group Limited as part of the Macquarie Preferred Membership Interests were held by one holder, Macquarie PMI LLC. The register in respect of the convertible notes is kept at Macquarie Group Limited's principal administrative office at No.1 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

Sustainability – GRI Index

This table provides information indicating the way Macquarie has used the Global Reporting Initiative to guide disclosures within this 2011 Annual Report. At the time of publication these disclosures are self-declared to meet a 'C+' Application Level. A GRI check has been requested.

Strategy and analysis

Ref	Indicator	Reference/page number
1.1	Statement from the most senior decision maker	Chairman & Managing Directors Report / pages 4 – 15

Organisational profile

2.1	Name of the organisation	page 1
2.2	Primary brands, products or services	About Macquarie / pages 16, 17
2.3	Operational structure of organisation	About Macquarie / page 16
2.4	Location of organisation's headquarters	Investor information / page 257
2.5	Number of countries where the organisation operates	About Macquarie / page 16
2.6	Nature of the ownership and legal form	Corporate Governance Statement / page 37 Investor information / page 254
2.7	Markets served by the organisation	About Macquarie / pages 16, 17 Regional activity / pages 14 – 15
2.8	Scale of the reporting organisation	Chairman & Managing Director's Report / pages 5, 6, 7 About Macquarie / pages 16, 17 Directors' Report / page 75
2.9	Significant changes during the reporting period	Chairman & Managing Directors Report / pages 5 – 9
2.10	Awards received in the reporting period	Chairman & Managing Director's Report / pages 12 – 15 macquarie.com.au/mgl/au/about-macquarie-group/profile/awards

Report parameters

3.1	Reporting period	Directors' Report / page 73 (1 April 2010 – 31 March 2011)
3.2	Date of the most recent previous report	March 2010
3.3	Reporting cycle	Directors' Report / page 73 (Annual)
3.4	Contact point for questions	Investor Information / page 255
3.5	Process for defining report content	Sustainability / pages 49 – 56
3.6	Boundary of the report	Directors' Report / page 73
3.7	Any specific limitations on the scope or boundary of the report	Sustainability / pages 50 – 51
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, other entities	Directors' Report / page 73
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	Not applicable
3.11	Significant changes from previous reporting periods	Not applicable
3.12	GRI Content Index	Sustainability – GRI Index / pages 258 and 259
3.13	Policy and current practice with regard to seeking external assurance for the report.	Sustainability – Independent limited assurance report / pages 262 and 263

Governance, commitments and engagement

4.1	Governance structure of the organisation	Corporate Governance Statement / pages 37 – 46
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Corporate Governance Statement / page 38
4.3	State the number of members of the highest governance body who are independent and/or non-executive members	Corporate Governance Statement / page 38
4.4	Mechanisms for shareholders and employees to provide recommendations or directions to the highest governance body	Corporate Governance Statement / page 38 Sustainability / page 50
4.14	List of stakeholder groups engaged by the organisation	Sustainability / pages 49 – 56 Macquarie Group Foundation Annual Review 2010
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability / page 56

Environmental

Ref	Indicator	Reference/page number
EN3	Direct energy consumption by primary energy source	Sustainability / page 51
EN4	Indirect energy consumption by primary source	Sustainability / page 51
EN5	Energy saved due to conservation and efficiency improvements	Sustainability / page 51
EN16	Total direct and indirect greenhouse gas emissions by weight	Sustainability /page 51
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Sustainability / pages 49 - 56
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	Sustainability / page 49

Labor practices and decent work

LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability / pages 49 – 56
LA12	Percentage of employees receiving regular performance and career development reviews	Sustainability / page 56
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Diversity / pages 47 and 48 Sustainability / pages 55 and 56

Society

SO2	Percentage and total number of business units analysed for risks related to corruption	Sustainability / page 55
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Sustainability / page 55
SO5	Public policy positions and participation in public policy development and lobbying	Sustainability / page 55
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	periodicdisclosures.aec.gov.au/DonorSearch.aspx

Economic

EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	2011 Financial Report / pages 139 - 252 Macquarie Group Foundation Annual Review 2010 (http://www.macquarie.com.au/mgl/au/about-macquarie-group/foundation/news/annual-reports)
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Sustainability / pages 49 - 56

Sustainability – Independent review

Independent review of selected Subject Matter contained in Macquarie Group's 2011 Annual Report

1 Purpose

The purpose of this document is to define the selected Subject Matter (the selected Subject Matter) contained within Macquarie Group Limited's (MGL) 2011 Annual Report that have been included in the scope of PwC's limited assurance engagement.

2 Scope and the selected subject matter

The selected Subject Matter that MGL requested be included within the scope of PwC's limited assurance engagement comprised the following selected corporate sustainability information for the 12 months ending 31 March 2011 (the reporting period):

- a) FY11 electricity consumed from corporate offices (TJ)
- b) FY11 Scope 2 electricity indirect emissions (CO₂-e t)
- c) FY11 Scope 3 indirect emissions business air travel (CO₂-e t)
- d) management's assertion that carbon offsets have been purchased and retired for the 2011 reporting period representing a quantity of greenhouse emissions offset greater than the sum of b) and c).

3 Basis of preparation

3.1 Organisational boundary

3.1.1 Corporate offices

Macquarie's corporate offices are defined as:

- offices leased by MGL operating entities globally which are also occupied by MGL staff and have a Net Usable Area (NUA) – the area that can be fitted out by the tenant greater than 100m²
- data centres around the world considered to be under the ongoing 'operational control' of MGL. In this instance 'operational control' is defined with reference to the Australian National Greenhouse and Energy Reporting Act (2007)
- new offices from business acquisitions from the month of acquisition.

The following exclusions have been applied in determining the reporting boundary:

- offices or buildings that are owned or managed by an MGL entity but are not tenanted by Macquarie staff
- serviced offices used by Macquarie staff where MGL has no oversight of the energy usage of the office. Energy costs for serviced offices are typically included as part of a service fee
- joint venture offices (where the joint venture is the only Macquarie related occupant of the office). Joint venture offices are defined as offices where Macquarie staff may be located as part of a joint venture business activity but where Macquarie has limited ability to influence the operation of these offices and does not have oversight of the data required to calculate GHG emissions.

3.1.2 Business air travel

Business air travel is defined as travel ticketed through Macquarie's Travel Management Companies for the primary purpose of business. Where business trips booked through Macquarie's Travel Management Companies include staff-funded spousal travel or personal leisure arrangements made as an aside to a business trip, this has been included in 'business air travel'.

3.2 Calculating and measuring greenhouse emissions and energy use

3.2.1 Energy use and GHG emissions

3.2.1.1 Direct emissions associated with natural gas and diesel (Scope 1 emissions)

Australian data for Scope 1 emissions associated with fuel combustion, natural gas and refrigerants within the organisational boundary was obtained from supplier invoices and found to comprise less than 1 per cent of total Australian emissions. On this basis, Scope 1 emissions for Macquarie's corporate offices internationally have been excluded in calculating total greenhouse gas emissions for the purposes of this report.

3.3.1.2 Total electricity consumed

Approximately 77 per cent of the electricity data for the reporting period was obtained directly from invoices. The remaining 23 per cent of energy consumption was estimated by either:

- where invoiced data existed for an office for part of the reporting period, determining daily electricity consumed for that part of the reporting period and extrapolating this out to the remainder of the reporting period for that office
- where no invoice data was available for a particular office, estimating electricity consumed for that office based on the Net Lettable Area of the office and the average electricity consumption per square metre of other offices in the same region.

Emission factors outlined in section 3.2.2 have then been applied to determine the equivalent indirect emissions associated with electricity consumed (Scope 2 emissions).

3.2.1.3 Other indirect emissions associated with business air travel (Scope 3 emissions)

Air travel data was based off reports provided by International SOS, the organisation contracted to monitor MGL staff travel and provide emergency assistance where required. Emission factors outlined in section 3.2.2 have then been applied to mileage to determine the equivalent indirect emissions associated with business air travel (Scope 3 emissions).

3.2.2 Measurement of GHG emissions

The following emissions factors have applied in calculating GHG emissions (tonnes CO₂-e):

Component	Reference documents
Australian offices	Method 1 from the National Greenhouse and Energy Reporting (Measurement) Determination 2008 for the calculation of greenhouse gas (GHG) emissions.
United Kingdom offices	The rolling average electricity emission factor as published in the Defra 2007: Guidelines to Defra's GHG conversion factors for company reporting.
United States offices	The Climate Registry Information System (CRIS) (2007)
Offices in other locations	GHG Protocol (2007) developed by the World Business Council for Sustainable Development and the World Resource Institute, tool 2.0.
Air travel	Emissions factors as published in the 2010 Guidelines to Defra / DECC's GHG Conversion Factors for Company Reporting. The mileage data is used to calculate emissions based on short, medium and long haul flight categories. Emissions from air travel also have a 2.7 radiative forcing index applied during the calculation.

Scope 2 emissions factors used for Australian and United States offices, and Scope 3 emissions factors for all air travel include greenhouse gases in addition to carbon dioxide and are expressed in carbon dioxide equivalents (CO₂-e) as stipulated within the associated reference documents. Scope 2 emission factors used for the United Kingdom and remaining office locations only comprise carbon dioxide emissions (CO₂) as stipulated within the reference documents. The jurisdictional variance in approaches to Scope 2 methodology had no material effect on outcome.

3.3 Carbon offsets purchased and retired

All carbon offsets purchased were generated by renewable energy projects and registered under the international Gold Standard issued by the Gold Standard Foundation or Voluntary Carbon Standard issued by the VCS Association. 100 per cent of offsets purchased would be eligible under the new voluntary National Carbon Offset Standard (NCOS) which was introduced by the Australian Government from 1 July 2010. However, given that approximately half of Macquarie's emissions occur in international locations, voluntary accreditation under the Australian scheme has not been sought.

Sustainability – Independent limited assurance report



Independent Limited Assurance Report to the Directors of Macquarie Group Limited over selected Subject Matter included in MGL's Annual Report for the 12 months ending 31 March 2011

We have been engaged to provide limited assurance on selected subject matter (the **selected Subject Matter**) presented in Macquarie Group Limited's (**MGL**) Annual Report (the **Annual Report**) for the 12 months ending 31 March 2011 (the **period**), in accordance with MGL's basis of preparation (the **Reporting Criteria**) set out on page 260 in the Annual Report.

The selected subject matter

The selected Subject Matter was chosen by MGL and comprises:

- a) the following information presented on page 51 of the sustainability section of the Annual Report.
 - i. FY11 electricity consumed from corporate offices (TJ)
 - ii. FY11 scope 2 electricity indirect emissions (tCO₂-e)
 - iii. FY11 scope 3 indirect emissions business air travel (tCO₂-e)
- b) the following information presented on page 260 of the Annual Report
 - i. Management's assertion that carbon offsets have been purchased and retired for the reporting period representing a quantity of greenhouse emissions offset greater than the sum of aii) and aiii) above.

Our responsibility

Our responsibility is to express a conclusion on the selected Subject Matter based on our procedures.

The procedures selected depend on auditor judgment, including an assessment of the risks of material misstatement of the selected Subject Matter, whether due to fraud or error. In making these risk assessments, we consider internal control relevant to MGL's preparation and fair presentation of the selected Subject Matter in the Annual Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of MGL's internal controls.

We read other information included within the Sustainability section in the Annual Report and consider whether it is consistent with the knowledge obtained through our procedures. We consider the implications for our report if we become aware of any apparent material inconsistencies with the selected Subject Matter. Our responsibilities do not extend to any other information reported by MGL.

In conducting our assurance engagement, we have followed applicable independence requirements of Australian professional ethical pronouncements.

Management's responsibilities

Management of MGL are responsible for preparing and presenting the selected Subject Matter in accordance with the Reporting Criteria. Management are responsible for determining the adequacy of the Reporting Criteria to meet the reporting needs of MGL. Management's responsibility also includes the design, implementation and maintenance of a system of internal control relevant to the preparation and fair presentation of the selected Subject Matter that is free from material misstatement, whether due to fraud or error.

Inherent limitations

Non-financial performance information, including the selected Subject Matter, may be subject to more inherent limitations than financial information, given both its nature and the methods used for the determining, calculating and estimating such information. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments. It is important to read the selected Subject Matter in the context of MGL's Reporting Criteria.

Assurance work performed

We conducted our limited assurance engagement in accordance with the Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements other than Audits and Reviews of Historical Financial Information issued by the Australian Auditing and Assurance Standards Board. Our procedures primarily consisted of:

- analytical procedures
- substantive testing of selected data to source information
- re-performance of calculations
- detailed walk-through of key processes and controls
- detailed testing over the consolidation and reporting process applied by MGL

As a limited assurance engagement generally comprises of making enquiries, primarily of management, and applying analytical procedures and the work is substantially less detailed than that undertaken for a reasonable assurance engagement, the level of assurance is lower than would be obtained in a reasonable assurance engagement. The conclusion expressed in this report has been formed on the above basis.

Use of our report

This report has been prepared in accordance with our engagement terms, solely for the Directors of MGL as a body, for the sole purpose of reporting on the selected Subject Matter within the Annual Report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of MGL for our work or for this report, or for any other purpose other than that for which this report was prepared.

We consent to the inclusion of this report in the Annual Report to assist MGL members in assessing whether the Directors have discharged their responsibilities by commissioning an independent assurance report in connection with the selected subject matter.

Conclusion

Based on the work described above, nothing has come to our attention which causes us to believe that the selected Subject Matter included in the Annual Report for the 12 months ending 31 March 2011 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

PricewaterhouseCoopers

PricewaterhouseCoopers Australia



Liza Maimone
Partner

Melbourne
28 April 2011

Glossary

AASB	Australian Accounting Standards Board
the Act	<i>Corporations Act 2001 (Cth)</i>
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
BAC	Board Audit Committee
Banking Group	the Banking Group comprises Banking and Financial Services Group (BFS), Corporate and Asset Finance Group (CAF), Fixed Income, Currencies and Commodities (FICC), Macquarie Funds Group (MFG) and the trading activities of the Macquarie Securities Group (MSG). There is also one division within the Banking Group; Real Estate Banking Division (REB)
BBSW	Australian Financial Association's bank-bill rate, published daily on AAP Reuters page. The Australian equivalent of LIBOR, SIBOR etc
BCGC	Board Corporate Governance Committee
the Board	the Board of Voting Directors of Macquarie Group Limited
BREEAM Excellent	UK Building Research Establishment Environmental Assessment Method's highest standard of environmental performance in an office building.
BRE A+ Rating	UK Building Research Establishment's highest rating in relation to the minimal environmental impact of a building material
BRC	Board Remuneration Committee
CAGR	compound annual growth rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
the Company	Macquarie Group Limited
the Consolidated Entity	Macquarie Group Limited and its subsidiaries
CO₂-e t (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)
CRO	Chief Risk Officer
CVA	credit valuation adjustments
DESOP	Deferred Exercise Share Option Plan
Directors	the Voting Directors of Macquarie Group Limited (unless the context indicates otherwise)
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
ECM	Economic Capital Model
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
Equity Plan	Macquarie Group Employee Retained Equity Plan
EPS	earnings per share
ERL	Equity Risk Limit
ESP	Macquarie Group Employee Share Plan

Executive Key Management Personnel – (Executive KMP)	Members of the Executive Committee of Macquarie Group Limited
FIRB	Foundation Internal Ratings Board Based Approach
FX, Forex	Foreign Exchange
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IRESS	a share market information system
IPO	Initial Public Offering
Key Management Personnel	all Voting Directors and members of the Executive Committee of Macquarie Group Limited (KMP)
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
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 ordinary shares	Macquarie Group Limited fully paid ordinary shares
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
MBL	Macquarie Bank Limited
MBEDSAP	Macquarie Bank Executive Director Share Acquisition Plan
MBSSAP	Macquarie Bank Staff Share Acquisition Plan
MEL	Macro-Economic-Linkages
MEREP	Macquarie Group Employee Retained Equity Plan
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
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NEDSAP	Non-Executive Director Share Acquisition Plan
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MFG and FICC that use certain offshore regulated entities of the Non-Banking Group
NOHC	non-operating holding company
NPAT	net profit after tax
OECD	Organisation for Economic Co-operation and Development
OTC	over-the-counter
ORMF	Operational Risk Management Framework
PSU	Performance Share Unit issued under the MEREP
PWC	PricewaterhouseCoopers

Glossary continued

QAD	Quantitative Applications Division of RMG
RMG	Risk Management Group
ROE	return on equity
RSU	Restricted Share Unit issued under the MEREP
RWA	risk-weighted assets
S&P	Standard & Poor's
Server Virtualisation	allows the consolidation of multiple physical servers onto a shared (virtual) server to leverage and optimise the utilisation of hardware
SPE	Special Purpose Entity
SPP	share purchase plan
TSR	total shareholder returns
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Group Limited

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