

2013 Annual Financial Report

Macquarie Group



Macquarie Group Limited

2013 Annual Financial Report

Corporate Governance Statement	2
Diversity Report	9
Sustainability Report	11
Risk Management Report	20
Directors' Report	36
– Remuneration Report	41
– Schedule 1	83
– Schedule 2	87
Financial Report	88
– Income Statements	89
– Statements of comprehensive income	90
– Statements of financial position	91
– Statements of changes in equity	92
– Statements of cash flows	94
– Notes to the financial statements	96
– Directors' declaration	202
– Independent audit report	203
Ten year history	205
Additional investor information	206
Sustainability Appendix	211
Glossary	215

Corporate Governance Statement

Macquarie's approach to Corporate Governance

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

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

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

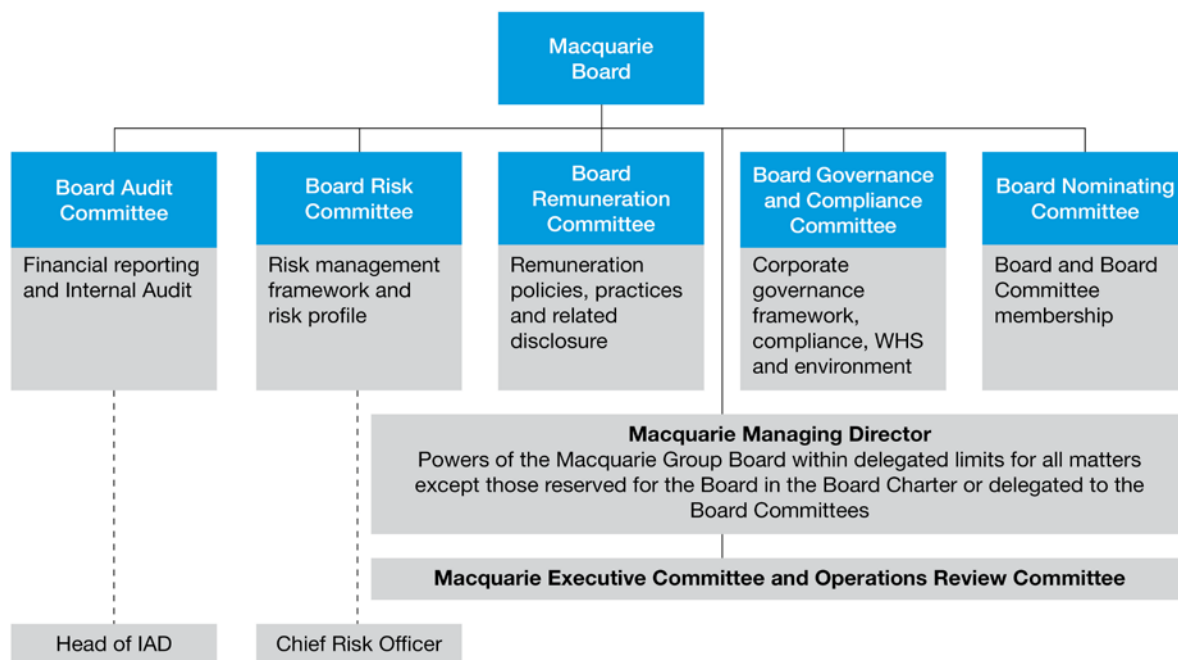
Macquarie Group Limited (Macquarie) is a global financial services provider and its shares are listed on the Australian Securities Exchange (ASX). As an ASX-listed company, Macquarie is required to report on the extent to which the

company has followed the governance recommendations set by the ASX Corporate Governance Council (ASX Recommendations) during the reporting period. Macquarie's corporate governance framework, which was unchanged during the year, remains consistent with the governance arrangements set out in 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.

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

During the year, Macquarie continued to monitor regulatory and corporate governance developments and their impact on Macquarie's businesses.

Corporate Governance framework



Board oversight

The Macquarie Board consists of ten Voting Directors, nine of whom are independent. Kevin McCann, an Independent Director, is Chairman. Nicholas Moore, Macquarie's Managing Director and Chief Executive Officer (CEO), is the only executive Board member. On 9 November 2012, Michael Coleman was appointed to the Board. The table below sets out the current composition of the Board and the membership of each Board Committee. Details of each Voting Director's experience are summarised in Schedule 1 of the Directors' Report contained in the Annual Financial Report. Schedule 1 also includes the date of each Voting Director's appointment to the Board.

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

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 CEO, 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.

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

Board Committees

Macquarie's five standing Board Committees assist the Board in its oversight role. Each Board Committee has an independent Chairman who is also not the Chairman of any other Board Committee. All Board members are sent Board Committee meeting agendas and may attend any Board Committee meetings. Subsequent to each Board Committee meeting, the minutes are included in the Board papers and presented to the Board by the respective Board Committee Chairmen.

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

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

Board and Committee membership

	Macquarie Board	Audit	Governance and Compliance	Nominating	Remuneration	Risk
Macquarie Independent Directors						
Kevin McCann AM	Chairman			Chairman	Member	Member
Michael Coleman	Member	Member				Member
Michael Hawker AM	Member	Member	Member			Member
Peter Kirby	Member	Member	Member			Member
Catherine Livingstone AO	Member	Chairman	Member	Member		Member
John Niland AC	Member		Chairman		Member	Member
Helen Nugent AO	Member			Member	Chairman	Member
Peter Warne	Member	Member		Member	Member	Chairman
Diane Grady AM	Member				Member	Member
Macquarie Managing Director and Chief Executive Officer						
Nicholas Moore	Member					Member
Macquarie Bank Managing Director and Chief Executive Officer						
Greg Ward						Member

Corporate Governance Statement

continued

Allocation of responsibilities between Board Committees

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

The **Board Audit Committee** (BAC) assists the Board with its oversight of the integrity of the financial statements including compliance with the requirements of the *Corporations Act 2001 (Cth)* (the Act) as well as other mandatory professional reporting requirements. In addition, it is responsible for reviewing the adequacy of the Group's APRA regulatory reporting control framework and monitoring the internal control environment. To assist with its monitoring role, the BAC reviews reports from the external auditor and Internal Audit.

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

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

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

Macquarie's *Policy on Board Renewal and Appointment of Directors* sets out the fundamental factors relevant to the selection and appointment of new directors and is available on Macquarie's website. Under the policy, independent directors are appointed for a maximum term of the greater of 12 years or the end of their final three year term.

Kevin McCann voluntarily submitted himself for re-election at the 2011 Annual General Meeting and his resulting re-election by shareholders, extended Mr McCann's tenure beyond Macquarie's Board renewal policy tenure limit as set out in the notice of meeting.

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. Nine of the Macquarie Board's ten members, including the Chairman, are independent directors.

The independence of directors is reviewed annually by the BGCC. 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 BGCC to determine whether the interest would materially interfere with the exercise of a non-executive director's independent judgment. Materiality is assessed having regard to each individual director's circumstances, the circumstances of any associated supplier, customer or adviser and any other significant relationships with Macquarie or its subsidiaries.

At its meeting in March 2013, the BGCC noted that Michael Coleman, Diane Grady, Michael Hawker, Peter Kirby, Catherine Livingstone, Kevin McCann, John Niland, Helen Nugent and Peter Warne continued to be independent directors.

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

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

Board performance

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

The Board and Directors

All new Directors are involved in an induction program to familiarise themselves with Macquarie, its Board practices and procedures and prudential requirements. The Board reviews its performance and the performance of each director on an annual basis. The process for conducting the review is agreed by the Board. Typically the process includes individual interviews by the Chairman or an external facilitator with each director and the use of a questionnaire to cover matters such as:

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

A nominated independent director or an external facilitator provides feedback to the Chairman on the Chairman's performance based on discussion with the other independent directors. A written report summarising the results, issues for discussion and recommendations is presented to the Board and discussed at a Board meeting. Additionally, Non-Executive Directors (NEDs) identify business awareness needs on an ongoing basis and regular board education sessions are held during the year.

The Board's review was undertaken with the assistance of an external facilitator in 2012. In 2013 it is being conducted internally in accordance with the process described above.

Board Committees

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

Performance of key executives

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

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

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

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

Ethical and responsible decision making

Code of Conduct

Macquarie has adopted a *Code of Conduct* that incorporates Macquarie's *Goals and Values (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 is protected and enhanced.

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

Integrity office

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

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

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

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

Dealing with potential conflicts

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

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

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

Corporate Governance Statement

continued

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

- Board members declaring their interests as required under the Act, the 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. Where potential conflicts arise, management will ensure that Directors of the relevant Board have sufficient information to manage conflicts appropriately.

Staff and Director trading

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

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

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

Each member of the Board is encouraged to consider positions in a Macquarie-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'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.

Macquarie's approach to sustainability is detailed in the Sustainability section of the Annual Financial Report. A Global Reporting Initiative (GRI) index is available on Macquarie's website. Macquarie has continued efforts to: reduce its carbon footprint; embed ESG risk management in its business; and pursue opportunities in renewable energy, energy efficiency, clean technology, carbon markets and ESG research. Macquarie is committed to the implementation of safe work practices and aims to provide an injury free workplace for all its employees.

The diversity of our people remains fundamental to Macquarie's success. Macquarie's *Workforce Diversity Policy* defines Macquarie's diversity commitment and the structures in place to facilitate its realisation. Our approach to diversity is detailed in the Diversity Report in the Annual Financial Report.

Macquarie engages in the wider community through the Macquarie Group Foundation (the Foundation). In the year to 31 March 2013, the Foundation and Macquarie staff contributed a total of \$A22.65 million to hundreds of community organisations globally. There are also a number of Foundation-coordinated volunteer programs.

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

Financial reporting

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

- the integrity of Macquarie's financial reporting and the operation of the financial reporting processes. The processes are aimed at providing assurance that the financial statements and related notes are complete, in accordance with applicable legal requirements and accounting standards, and give a true and fair view of Macquarie's financial position. During its review of Macquarie's interim and year-end financial reports the BAC meets with the external auditor in the absence of management

- the external auditor engagement. The BAC reviews the appointment, the terms of the engagement and the performance of the external auditor before making recommendations to the Board on the appointment and removal of the external auditor
- the operation of the Internal Audit and Credit Assurance (CA) functions. The BAC reviews the independence, appointment, performance and remuneration of the Head of the Internal Audit Division (IAD), as well as monitoring the effectiveness of the Internal Audit function. It also monitors the scope and implementation of the IAD and CA annual plans
- Macquarie's APRA regulatory reporting control framework and other bank regulatory reporting.

Auditor independence

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

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

During the year the Board granted approval to extend the term of the current lead auditor for one year, to include the audit of the 2014 financial year, given that recent changes to Macquarie's operations necessitated substantial changes to the planning and execution of the 2013 external audit. These operational initiatives are ongoing and are expected to impact the 2014 audit. Following the 2013 audit, it is also expected that there will be changes to the membership of the BAC.

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

Chief Executive Officer and Chief Financial Officer declaration

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

Macquarie's senior management has also reported to the Boards of Macquarie and Macquarie Bank on the effectiveness of the management of material business risks for the year ended 31 March 2013.

Commitment to shareholders and an informed market

Macquarie believes that shareholders, regulators, ratings agencies and the investment community should be informed of all major business events and risks that influence

Macquarie in a factual, timely and widely available manner. Macquarie has a continuous disclosure policy that is incorporated in the *External Communications Policy*.

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

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

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, time and venue convenient to its shareholders. For shareholders who are unable to attend in person, Macquarie provides a webcast of its AGM and any other general meetings. The results of all meetings are lodged with ASX after the meeting as soon as they are available.

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

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

Shareholders, if unable to attend the meeting, are encouraged to vote on the proposed motions by appointing a proxy. The proxy form included with a notice of meeting will 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.

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 email notification of Macquarie public announcements.

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

Corporate Governance Statement

continued

Oversight of risk management

Risk management is sponsored by the Board and is a top priority for senior managers, starting with the Managing Director and CEO. Macquarie's CRO is a member of Macquarie's Executive Committee and reports directly to the Managing Director and CEO. The CRO has a secondary reporting line to the Board Risk Committee which approves the replacement, appointment, reassignment or dismissal of the CRO. The CRO presents on risk matters at each Board/Board Risk Committee meeting.

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

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

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

Remuneration

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

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

To more closely align the interests of the Board with shareholders, NEDs are required to progressively acquire a minimum of 6,000 shares over the five years from the date of their appointment. Each NED's remuneration and current Macquarie shareholding are set out in the Remuneration Report and the Key Management Personnel disclosure in the notes to the financial statements in the 2013 Annual Financial Report.

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

Corporate Governance in Macquarie-managed funds

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

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

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

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

Diversity Report

Macquarie's ongoing commitment to workforce diversity ensures our business remains relevant, sustainable and continues to meet the evolving needs of our clients. Our broad range of experiences, skills and views are key strengths and critical to the wide range of services we deliver across a global operating environment.

All executives, managers and employees are responsible for promoting workforce diversity and working with dedicated Diversity representatives in implementing the organisation's global diversity agenda. Diversity committees exist within operating and service groups and within regions, and each committee functions with a mandate that reflects our global objectives and accommodates business or location specific priorities and circumstances.

Global Diversity Policy

Macquarie's *Workforce Diversity Policy* defines 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 in the public *Our Commitment to Workforce Diversity* statement available on Macquarie's website.

Female representation metrics

The table below outlines the proportion of women employed globally at Macquarie for each year ending 31 March⁽¹⁾:

	2012 (%)	2013 (%)
Board of Directors	33.3	30
Executive Committee	10	18.2
Division Head ⁽²⁾	9.9	11.1
Senior Executive ⁽³⁾	12.9	13.8
Macquarie Workforce	36.9	36.8

⁽¹⁾ Excluding Division Head data which is as of 30 October 2011 and 30 November 2012.

⁽²⁾ Division Head refers to critical roles across Macquarie. It typically includes executives two layers down from the CEO.

⁽³⁾ Senior Executive refers to Macquarie's combined Division Director and Executive Director population.

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 2013, Macquarie has affirmed the gender diversity objectives communicated in last year's Annual Report as reflecting its key strategic imperatives and desired long-term outcomes.

Details of Macquarie's progress in realising these objectives during the year ended 31 March 2013 are set out in the following table.

Diversity Report

continued

Gender Diversity objectives

Strategic imperative	Long-term outcome sought	Objective	Progress FY13
Diverse talent pipeline	Increase the number of females hired by Macquarie by increasing the rate of female applications.	<p>Embark on a long-term plan to attract females to a finance career:</p> <ul style="list-style-type: none"> – conduct research 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. 	<p>There is a continued focus on influencing females to consider a career in finance. Building on the prior year's research with undergraduates, focus groups were conducted with recent joiners to Macquarie to understand perceptions around culture and the employment experience. This research will contribute to ongoing work on Macquarie's employment value proposition and the unique attractions of a career in finance.</p> <p>Relationships with female students at both university and high school level have expanded via a range of initiatives including mentoring, networking and programs offering career guidance.</p> <p>Talent search technology has been implemented to enable the identification and tracking of broader talent pools.</p>
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.	<p>Macquarie's commitment to supporting the careers of females has been further consolidated through a range of initiatives. Examples include a review of paternity leave benefits and sponsorship of diversity organisations, events and development programs.</p> <p>Active profiling of key role models at Group Head, Chief Operating Officer and Division Head level has also served to reinforce this commitment.</p>
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 ongoing review of programs to incorporate key diversity concepts.	<p>Appropriate Workplace Behaviour training represents a unique opportunity to engage with staff as it is completed by all employees globally on a reoccurring basis. The program style and content has been redesigned to serve as an education platform for key diversity messages.</p> <p>Management and leadership training is evolving with a focus on inclusive leadership and leveraging diversity to drive innovation and team performance.</p> <p>Mentoring and sponsorship partnerships are being actively facilitated as a development strategy to support diversity.</p> <p>A commitment to objective assessment drives the continuous review and improvement of talent management processes.</p>
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.	<p>Incorporate diversity-related messaging into newsletters, conferences and other communication forums with staff.</p> <p>Equally engage the male and female staff population in diversity based initiatives such as training programs and networking opportunities.</p>	<p>There is a continued emphasis on implementing practical steps to further embed diversity into the day-to-day operations of Macquarie. Initiatives have ranged from regular updates via the <i>Women@Macquarie</i> site and the establishment of employee network groups through to more innovative strategies such as the hosting of a Diversity Week. This consisted of a program of events designed to increase diversity awareness amongst staff including keynote presentations, employee debates, networking and education sessions and a cultural food fair.</p>

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.

Underpinned by Macquarie's *Goals and Values* and *Code of Conduct*, Macquarie's ESG priorities are shaped by their materiality to business performance and stakeholder interest. Macquarie has built its commitment to ESG by focusing on the following priorities:

- ESG governance and management
- direct operations
- investments, markets and products
- people and workplace
- engaging stakeholders.

To gain a complete view of Macquarie's ESG approach, these pages should be read in conjunction with other sections of Macquarie's 2013 Annual Financial Report including: Corporate Governance Statement, Diversity, Risk Management, Remuneration and the Financial Report.

In the year to 31 March 2013, Macquarie continued to embed ESG within its diverse activities and drive new business opportunities. Highlights include:

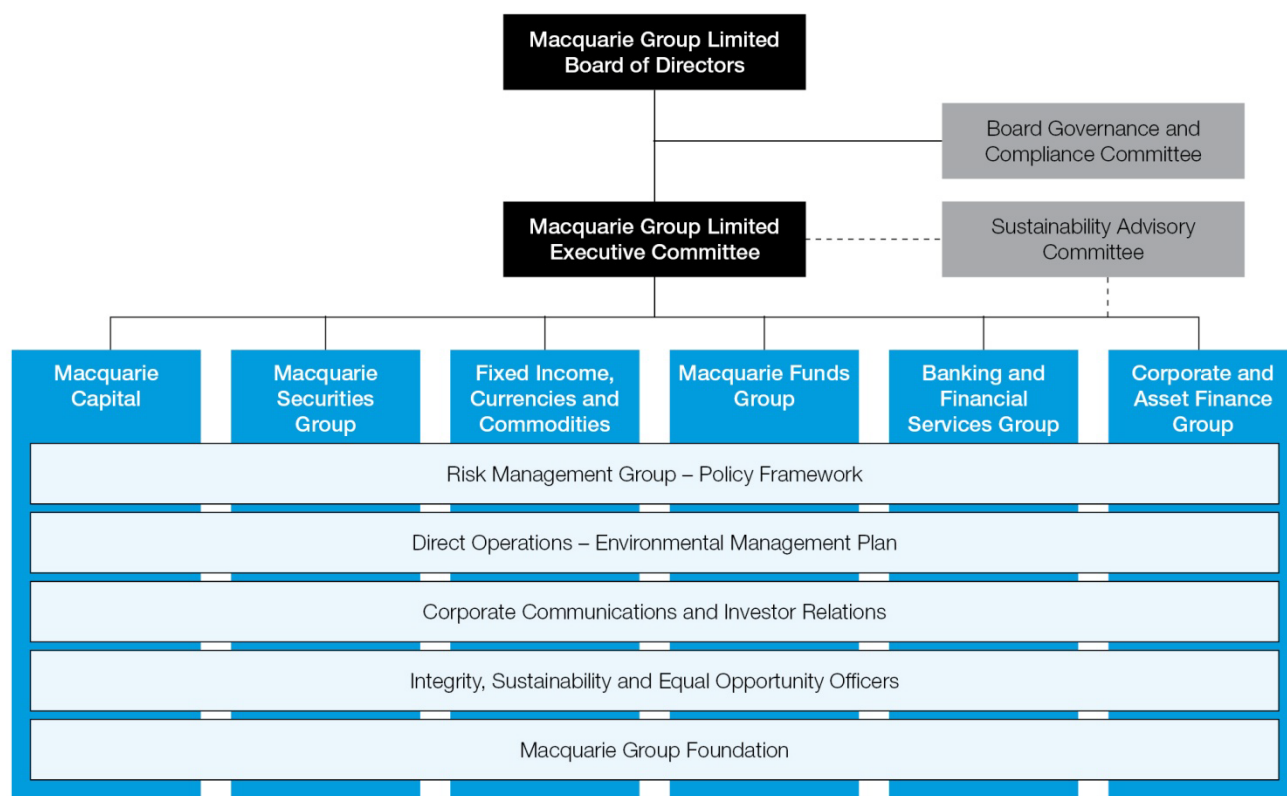
- maintaining carbon neutrality across premises energy use and corporate air travel
- reducing total Scope 2 and Scope 3 emissions by 12 per cent compared with FY2012.

- integrating ESG through business-specific ESG policies and training
- publishing more than 360 pieces of renewable energy research for clients, investors and staff
- rating 1st and 3rd for Renewable Energy Research Analysts, 2nd for Australian ESG research and 2nd for Leading Brokerage Firm for Renewable Energy Research
- becoming the largest deregulated traditional and smart meter provider in the UK
- ranking globally as a Top 3 carbon trader by volume
- continuing to build business in renewable energy, global carbon markets, energy efficiency and clean technology
- contributing to public policy reviews
- investing in ongoing staff training and development.

ESG governance and management

Overall responsibility for ESG resides with Macquarie's Board and management which set the direction for the organisation. The Board Governance and Compliance Committee is responsible for monitoring aspects of ESG performance including environmental compliance and Work Health and Safety (WHS) across operating businesses.

Macquarie's Sustainability Advisory Committee is comprised of senior Macquarie executives whose business roles or compliance functions intersect with ESG issues. Macquarie's Sustainability and Environment Office coordinates a diverse range of sustainability and ESG activities, including developing and implementing ESG policies, providing advice on ESG risks and opportunities and facilitating ESG training.



Sustainability Report

continued

ESG policies

Macquarie's risk management approach is detailed in the Risk Management Report and includes a well-established framework of ESG-related policies that apply across all Macquarie divisions and entities, including financing, leasing and advisory. ESG-related policies include:

- corporate governance
- identification and management of environmental risk
- oversight and management of WHS
- selection and management of investments and new business activities
- ethical conduct by staff, including support from Integrity Officers
- sustainable management of Macquarie business premises
- greenhouse gas and energy management and reporting
- 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
- management of business and staff conflicts of interest
- engagement by Macquarie and its staff in the wider community, including volunteering, capacity building and matched donations.

All staff share responsibility for identifying and managing ESG issues as part of normal business practice. They are supported by the ESG governance structure, specifically the Risk Management Group, Sustainability Advisory Committee and Sustainability and Environment Office, as well as access to specialist ESG research and training.

Macquarie's risk management approach also incorporates business-specific policies that address ESG issues in a manner appropriate to each business line. Business lines employ independent impact assessments, develop compliance plans and regularly report on ongoing environmental and WHS risk management. In certain instances, transactions may be further reviewed by key business decision makers, the Risk Management Group, Corporate Communications and Investor Relations or the Executive Committee.

In the year to 31 March 2013, Macquarie continued to embed ESG into risk management by:

- conducting a review of environmental and social risk management processes and practices across Macquarie's businesses
- expanding the number of business-specific ESG policies
- further enhancing the WHS and environmental management framework for operating assets
- offering bespoke ESG training.

Preventing money laundering, terrorist financing and corruption

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 maintains a risk management framework that is designed to minimise the risk of its products and systems being used to facilitate the crimes of money laundering and terrorist financing. The framework also supports Macquarie's anti-corruption and anti-bribery initiatives and drives a high level of integrity in all business dealings.

The framework includes policies and procedures, training, governance standards, escalation protocols and assurance activities, and ensures that Macquarie:

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

All Macquarie employees are required to undertake training to understand their obligations under the relevant laws and regulations governing anti-corruption, anti-bribery and anti-money laundering. Risk assessments are undertaken periodically across all businesses to identify business activities which are more susceptible to abuse, with additional training and oversight efforts directed accordingly.

Regulatory requirements and expectations continue to evolve in the areas of anti-money laundering, counter-terrorist financing and anti-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 its stakeholders including shareholders, clients and employees.

A more detailed overview of these policies and procedures is available on the Macquarie website.

Political donations

Macquarie ensures that 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 financial assistance to the major political parties at the state and federal level. Macquarie publicly declares all its political expenditure in Australia to the Australian Electoral Commission (AEC). In 2011/2012 Macquarie provided a total of \$A240,081 to political parties in Australia (Liberal Party \$A121,901, Australian Labor Party \$A102,230, National Party \$A15,950). In 2011/12 no donations were made by the Group outside of Australia.

Climate change

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 and addressing local legislative requirements consistent with *Macquarie's Greenhouse and Energy Reporting Policy*
- 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. In Australia Macquarie reports its emissions under the *National Greenhouse and Energy Reporting Act* and is not a liable entity under the Australian carbon pricing mechanism. 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 CDP website.

Direct Operations

Macquarie's Environmental Management Plan (EMP) integrates resource efficiency and sustainability into the day-to-day operations of Macquarie's offices and corporate operations. The EMP areas of focus are:

carbon emissions – reducing energy use and offsetting carbon emissions to achieve carbon neutrality across offices and air travel

sustainable buildings – investing in sustainable buildings and fit-outs

resource use reduction – reducing paper, waste and water usage

sustainable procurement – engaging in sustainable procurement practices.

Carbon emissions

Since 2010, Macquarie has maintained its carbon neutral commitment by reducing and offsetting emissions from its office energy use and business air travel. The Carbon Commitment builds on Macquarie's response to risks and opportunities arising from climate change, its investments and activities in renewable energy, clean technology and environmental markets, and status as a signatory to the CDP.

In the year to 31 March 2013, Macquarie's total Scope 2 and Scope 3 emissions were reduced by 12 per cent from FY2012. FY2013 is the second consecutive year of absolute emissions reduction following the 4 per cent reduction achieved last year.

Reducing emissions from energy use – In FY2013, Macquarie continued efforts to reduce office and data centre energy use. Energy use and associated emissions reductions were primarily driven by premises and data centre consolidations and deployment of virtualised server technology.

For the 12-month period ending 31 March 2013, Scope 2 total emissions decreased by 11 per cent compared to FY2012, and Scope 2 per capita emissions decreased 3 per cent from FY2012 and 13 per cent from the FY2009 baseline.

The objective for FY2014 is to continue to reduce emissions associated with electricity consumption with a specific focus on implementing IT solutions.

Offsetting emissions – To offset Macquarie's remaining Scope 2 and 3 emissions and achieve carbon neutrality for corporate offices and air travel, Macquarie purchased and retired carbon offsets for the year to 31 March 2013. Macquarie acquired a diverse portfolio of offsets, focusing on project quality and verifiable emissions reductions. The portfolio comprised 39 per cent Gold Standard and 61 per cent Voluntary Carbon Standard credits from projects in Ghana, Colombia, India and the United States. These projects, supported by the sale of carbon credits on international markets, provide sustainable energy and forest conservation solutions to the countries and communities in which they operate.

Sustainability Report

continued

Sustainable buildings

Focusing on sustainable buildings is a critical way for Macquarie to reduce direct resource consumption and greenhouse gas emissions. Macquarie aims to ensure the design, construction and fit-out of all new premises achieve high sustainability ratings.

In FY2014, Macquarie's sustainable building activities will focus on the design and fit-out of the new head office at 48-50 Martin Place, Sydney. The refurbishment of this flagship building is targeting a 6 Star Green Star office design environmental rating from the Green Building Council of Australia. The 6 Star strategy will primarily focus on indoor environment quality and visual amenity optimisation, energy use and waste minimisation, water conservation including rainwater collection and reuse, and material choice.

Macquarie is also relocating Brisbane staff to a new tenancy in Ann Street, Brisbane. The building and fit-out incorporate sustainable elements such as rainwater capture and reuse, efficient light fixtures with time and occupancy-based controls, efficient air conditioning system with increased fresh air quantities, and onsite waste management and sorting. The fit-out of the Macquarie occupied floors has a 5 Star Green Star certification.

Resource efficiency

Over the last two years, initiatives have been rolled out to reduce paper use and, where tenancy arrangements permit, reduce waste and manage water consumption.

Paper reduction initiatives include replacing printer hardware with shared devices and recycling expired printer components. New printers globally are being configured with default double-sided printing and further investment is being made into hub location technologies which require a user action to release and collect printed documents. These initiatives along with actions from prior years have resulted in reductions in total and per capita paper use in major office locations.

Paper use data has been collected across the majority of Macquarie offices, representing approximately 80 per cent of Macquarie staff. From FY2012 to FY2013, paper use was reduced from 167,106 to 131,467 reams, a decrease of 21 per cent. Over the same period, per capita paper use was reduced from 13.2 to 11.1 reams, a decrease of 16 per cent. The environmental impacts of paper use are also being addressed through an ongoing commitment to use certified sustainable or recycled paper stock.

Following the FY2011 sustainability audits of its offices, Macquarie has implemented standardised waste recycling and water management programs wherever tenancy arrangements allow. Waste and water data is currently collected from a number of large offices where Macquarie occupies the entire building. For example, from FY2012 to FY2013, waste in Sydney offices reduced from 1,129 to 1,105 tonnes, a decrease of 9%. In the same period, water use in Sydney and London offices reduced from 34,146 to 34,135m³, a decrease of one per cent.

In FY2014, Macquarie will continue to identify opportunities to improve waste management and water use in offices housing more than 100 staff.

Sustainable procurement

As part of an ongoing procurement strategy, Macquarie has built sustainability clauses into all new supplier tender documents. These clauses include consideration of social, ethical and environmental impacts such as working conditions, fair trade, environmental policies and resource efficiency. They are used by the procurement division as a factor in supplier selection. Macquarie is committed to working with suppliers that value the importance of sustainability and that have embedded best practice within their organisation.

Carbon and energy data for corporate offices⁽¹⁾ and business air travel⁽²⁾

	Baseline ⁽³⁾					Change	
	FY09	FY10	FY11	FY12	FY13	Prior Year	Baseline
Scope 2 indirect electricity emissions per capita (tCO ₂ -e per person)	3.93	3.49	3.35	3.55	3.44	-3%	-13%
Total Scope 2 indirect electricity emissions (tCO ₂ -e)	49,632	50,923	51,941	52,497	46,956	-11%	-5%
Australia/NZ	31,874	31,881	28,883	28,453	25,726	-10%	-19%
International	17,758	19,042	23,058	24,044	21,230	-12%	20%
Scope 3 indirect emissions business air travel (tCO ₂ -e)	n/a	78,018	79,330	73,260	63,334	-14%	-19%
Total Scope 2 and Scope 3 emissions (tCO ₂ -e)	–	128,941	131,271	125,756	110,290	-12%	-14%
Office energy use (terajoules)	237	251	268	275	247	-10%	4%

⁽¹⁾ Corporate offices are defined as:

- offices leased by Macquarie operating entities that are also occupied by Macquarie staff and have a Net Usable Area (NUA) greater than 100m².
- data centres considered to be under the ongoing operational control of a Macquarie Group operating entity.
- new offices from business acquisitions from the month of acquisition.

⁽²⁾ Business air travel is defined as travel ticketed through Macquarie's Travel Management Companies for the primary purpose of business.

⁽³⁾ Note that the baseline for Scope 2 electricity emissions is FY2009 while, due to data availability, the baseline for Scope 3 business air travel emissions is FY2010. Total Scope 2 and Scope 3 emissions reductions are calculated based on a FY2010 baseline.

Sustainability Report

continued

Investments, markets and products

Macquarie Securities

Macquarie Securities has industry-leading analysts dedicated to publishing specialist ESG and alternative energy research.

The ESG research focuses on ESG issues as part of detailed analysis of listed stocks and application of an integrated approach, giving top down analysis followed by bottom-up stock valuations. Macquarie published a number of specialist ESG reports in FY2013 covering topics such as employee engagement, sustainability reporting and remuneration rules.

The global Alternative Energy Research team covers listed wind, solar, metering and battery companies around the world. The team is coordinated from London with analysts located in Hong Kong, Taiwan, Sydney and New York. The team published over 360 pieces of research in FY2013.

Industry recognition

During FY2013, Macquarie received the following ratings and awards:

- 2nd for its Australian ESG research by Australian and Asian Institutional Investors⁽¹⁾
- 1st and 3rd for Renewable Energy Research analysts⁽²⁾
- 2nd for Leading Brokerage Firm for Renewable Energy Research⁽²⁾
- 2nd for renewable energy research in the Institutional Investor Survey Europe

Engaging investment community

During FY2013, Macquarie continued its ESG engagement across Australian corporates, investors, industry bodies and academic communities.

Macquarie analysts presented at many external ESG conferences and forums including the UN Principles for Responsible Investment Academic Network Conference, focusing on how brokers can integrate ESG information into their research.

Macquarie Capital

Macquarie Capital has been an active investor and adviser in the alternative energy and social infrastructure sectors for over 15 years. Macquarie Capital's Infrastructure, Utilities and Renewables team has global experience in executing and advising in these areas. Drawing on its sector expertise, global network and strong record, the team delivers these projects for both government and corporate clients.

With a global client base spanning the renewable energy, green technology and social infrastructure sectors Macquarie Capital provides the following services:

- corporate advisory
- equity capital markets
- debt capital markets.

Advisory activity

During FY2013, Macquarie Capital advised on 18 transactions with a total deal value of \$A1.9 billion. Example transactions include:

- Canadian Hills Wind Power Development Project – joint underwriter on Atlantic Power's \$C72.9 million common share offering to fund commitment to the project
- Walney 2 offshore transmission link – adviser, arranger and consortium sponsor on Blue Transmission's acquisition of offshore transmission assets. Formed by Macquarie Capital, Blue Transmission is a leading owner and operator of infrastructure facilitating offshore energy transmission.

Fixed Income, Currencies and Commodities

Fixed Income, Currencies and Commodities is involved with trading environmental financial products.

With staff in London, Beijing and Sydney, the team members offer:

- a full-service trading desk making physical and derivative markets in European Union emissions allowances and Certified Emission Reductions (CER) as well as dealing in 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
- debt/equity investment and derivative financing for emissions abatement and renewable energy projects
- tailored environmental risk management solutions from simple hedge structures to complex structured derivatives.

Macquarie is a top 3 global carbon trader by volume.

Reducing emissions through CDM

Macquarie has invested in Clean Development Mechanism (CDM) projects since 2006. As at 31 March 2013 FICC held a portfolio of 41 CDM projects, that could generate over 30 million emissions credits.

Macquarie Capital and Fixed Income, Currencies and Commodities – Mainstream Renewable Power

In 2012, Macquarie Group provided a €40 million corporate facility to Mainstream Renewable Power, assisting them to develop wind farm and solar power plants in North and South America, South Africa, and Europe. Macquarie's Fixed Income, Currencies and Commodities and Macquarie Capital groups worked together on this transaction, demonstrating Macquarie's expertise in the renewable energy sector as an investor, adviser, developer, operator and financier.

⁽¹⁾ Peter Lee Associates Survey of Australian Equity Investors 2012 & Peter Lee Associates Survey of Asian Equity Investors 2012

⁽²⁾ Thomson Reuters Emtel and UKSIF 2012 Socially Responsible Investing & Sustainability Survey 2012

Corporate and Asset Finance

Corporate and Asset Finance uses its expertise in finance and asset management solutions to provide the following services and products:

- smart metering finance
- energy efficient asset finance
- specialised financing solutions for renewable energy providers.

Expansion of smart metering

Macquarie continued to increase its funding lines to UK energy retailers to facilitate the accelerated roll-out of smart gas and electricity meters that assist efficient energy management in the industrial, commercial and residential sectors. Macquarie currently leases more than 650,000 smart meters to energy retailers in the UK and has recently been awarded several significant additional smart meter contracts that are expected to result in leasing a further 340,000 smart electricity and gas meters. This will see Macquarie finance a total of 990,000 smart meters by 31 March 2014.

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.

Co-financing partner of Low Carbon Australia

Through the co-financing partner relationship with Low Carbon Australia Limited, Macquarie has been able to deliver even more competitive finance to fund capital upgrades of energy efficient equipment in eligible commercial and public sector organizations. This arrangement allows Corporate and Asset Finance to provide cost effective and innovative structures, including:

- funding Energy Performance Contracts
- 'small ticket' energy/solar financing facility
- rollouts of smart metering
- Power Purchase Agreements.

Equipment that may be financed includes co-generation, tri-generation, solar PV, energy-efficient lighting systems, heating, ventilation and air-conditioning.

Macquarie Funds

Macquarie Funds' focus on ESG covers a range of aspects, including:

Integrating ESG

Macquarie Infrastructure Debt Investment Solutions uses its ESG policy and investment team training to assist in identification and management of ESG risks and opportunities associated with infrastructure debt investments.

The Private Markets team engages with investment managers and uses advisory board seats to positively influence the way in which ESG risks are managed within underlying portfolios.

The Listed Equities team engages with company management to positively influence corporate governance practices and ESG risk management

Macquarie Agricultural Fund Management (MAFM) is participating in an industry-NGO working group developing sustainability KPIs to implement the Principles for Responsible Investment in Farmland. MAFM managed assets are also working with local environmental groups to promote sustainable natural resource management including biodiversity conservation, landscape connectivity and resource protection.

Specialised products

Delaware Investments SRI products – Delaware has longstanding experience in ESG investing and offers a spectrum of specialist products to investors. Total assets managed under these SRI strategies is \$US 658.3 million as at 31 March 2013.

Macquarie Clean Technology Fund Series – provides a diversified portfolio of private equity investments focused on technologies that seek to improve energy efficiency and reduce negative environmental impacts.

Banking and Financial Services

Banking and Financial Services has specialist investment expertise developing niche businesses in:

- avoided deforestation
- environmental and electricity market infrastructure
- carbon products
- renewable energy
- waste remediation
- customised ESG investment portfolios for not-for-profit organisations.

Diversifying REDD projects

Macquarie established BioCarbon in 2009. In 2011, Global Forest Partners LP, the International Finance Corporation (IFC), a member of the World Bank Group, and Macquarie Bank committed a total of \$US25 million to BioCarbon. BioCarbon is a now global leader in land-based carbon investing, developing projects which generate emission reductions with a focus on emerging markets.

Waste remediation

During FY2013 the Alternative Team in BFS's Global Investments (MGI) Division completed a \$A47million institutional capital raising to build a specialised soil treatment and remediation facility in Victoria. The business has an exclusive license to utilise leading, commercially proven German clean technology in Australia and New Zealand.

Supporting environmental markets

MGI is a majority owner of Envex that owns a majority stake in the Australian environmental and electricity markets brokerage Next Generation Energy Solutions (NGES).

Tailored ESG investments

Macquarie Private Portfolio Management (MPPM) offers clients customised investment solutions aligned to their specific ESG goals or screening preferences. Macquarie also provides model portfolios with a broad, socially responsible investing bias using both internal and external factors. All clients investing in MPPM-managed strategies have access to a research process that includes embedded ESG-focused factors. The combined FUM covered by these strategies is \$A1.1 billion.

Sustainability Report

continued

People and workplace

Integrity and good decision-making

Macquarie recognises that the trust and confidence of its clients and the community are critical to its long-term success. Staff are expected to act with honesty and integrity at all times. These principles, and the goals and values that govern Macquarie's approach, are set out in *What We Stand For*.

Macquarie established the role of Integrity Officer in 1998. The Integrity Office now includes a group-wide Integrity Officer supported by regional Integrity Officers around the globe. The Integrity Office reports directly to the Chief Executive Officer and regularly updates the Board Governance and Compliance Committee.

To ensure that Macquarie's culture of honesty and integrity remains strong throughout the organisation, the Integrity Office coordinates specific training on Macquarie's *Goals and Values* for all staff who join Macquarie. Integrity Officers meet regularly with business groups to train and support staff in good decision-making and to promote continued awareness of the principles that underpin the way Macquarie operates.

In addition, the Integrity Office draws on Dr Simon Longstaff of the St James Ethics Centre as an independent advisory resource. In partnership with the St James Ethics Centre, Macquarie has developed a number of training modules that continue to be provided to staff.

The Integrity Office also provides an independent point of contact for staff to seek advice about integrity issues. Macquarie has whistleblower policies and protections in each of the regions in which it operates. These policies are regularly reviewed by the Integrity Office to ensure they accord with both legislative requirements and best practice recommendations.

Macquarie has established an externally managed staff hotline. This service enables staff to report suspected breaches of Macquarie's *Goals and Values* or other misconduct anonymously.

Learning and development

Macquarie strives to create an environment where learning is a part of an employee's career development. Macquarie continues to invest in employee development by providing targeted and role-specific learning opportunities to meet the needs of Macquarie's diverse talent base.

Since 1 April 2012, a total of almost 750 classroom events have been delivered globally and a further 387 online courses and 177 knowledge tests have been available including compliance-related training focusing on fraud awareness, anti-bribery, anti-money laundering/counter-terrorism financing and other financial services compliance issues for new and existing staff as well as leadership courses and materials on financial services products.

In addition to Macquarie delivered programs, many employees benefit from sponsored education and can pursue career development opportunities at independent institutions such as a Master of Finance offered by INSEAD in conjunction with Macquarie.

As part of Macquarie's leadership development efforts, Macquarie provides customised management and leadership programs, executive coaching and mentoring. During the year, 776 people have attended at least one of Macquarie's leadership development programs which develop staff from new managers through to senior leaders.

To support Macquarie's merit-based culture, regular appraisals are a key part of performance measurement, including goal setting and ongoing career development. In addition to encouraging regular and ongoing feedback with managers, Macquarie has a policy that requires all employees to have at least one formal annual appraisal session with their manager where employees are encouraged to raise, discuss and respond to matters relating to training, further education and development of leadership capabilities.

Diversity

Macquarie's ongoing commitment to workforce diversity ensures our business remains relevant, sustainable and continues to meet the evolving needs of our clients. Our broad range of experiences, skills and views are key strengths and critical to the wide range of services we deliver across a global operating environment.

At the end of the year, Macquarie's workforce comprised approximately 43.9 per cent in ANZ, 24.3 per cent in the Americas, 23.2 per cent in Asia and 8.6 per cent in EMEA. Part-time work is accommodated where possible and employees on part-time hours have eligibility for the same types of benefits as full-time employees, unless there is a local legal or regulatory requirement to restrict eligibility on that basis.

The range of initiatives supporting Macquarie's workforce include:

- sponsorship of diversity organisations, events and development programs
- redesign of Appropriate Workplace Behaviour training to educate on key diversity issues
- evolution of management and leadership training to focus on inclusive leadership and leveraging diversity to drive innovation and team performance
- strategies such as the hosting of a Diversity week to increase diversity awareness amongst staff.

Macquarie's recruitment strategy continues to progress in relation to diversity with ongoing research to further position Macquarie as an employer of choice and the implementation of talent search technology to enable the identification and tracking of broader talent pools. More detailed information about Macquarie's approach to diversity is provided on pages 9 and 10.

Work Health and Safety

Macquarie is committed to effective WHS management and aims to provide a workplace free from injury and illness. Safe work practices are implemented and reviewed on an ongoing basis to ensure the highest safety standards are maintained across the diverse range of activities undertaken globally.

Macquarie implements a wide range of measures to manage workplace hazards including, regular review of established systems and frameworks, completion of safety inspections and training. Macquarie promotes a proactive approach to health and safety by using health and safety committees as a forum to consult with employees.

Macquarie's internal wellness program focuses on physical, psychological and cultural aspects of health. Macquarie aims to encourage and empower employees to establish or maintain lifestyles that enhance their own health and wellness at work by providing access to an integrated wellness strategy incorporating health risk assessments, educational seminars, online portal content, employee assistance programs and flexible working arrangements.

Engaging stakeholders

Macquarie actively engages with shareholders, investors, clients, analysts, governments, employees, and the wider community to enable Macquarie to understand the expectations of our key stakeholders. Clear dialogue with stakeholders is essential to building strong relationships, maintaining trust and enhancing business performance.

- Shareholders and Investors – well beyond the key events of the corporate calendar, such as the Annual General Meeting and result and operational briefings, Macquarie aims to provide clear and open lines of communication with shareholders, investors and analysts. Investor Relations oversees an extensive program which includes domestic and international investor roadshows, conferences and briefings. Macquarie Board Members and management periodically meet with key investors and shareholders as part of this program.
- Government - 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.
- Employees – Macquarie engages with its employees through a range of channels including orientation, networking events, All Staff Meetings, in-depth local business briefings, business level staff surveys and an active staff intranet featuring news and video content. In FY2013 senior leadership conducted All Staff Meetings in 50 locations globally with event surveys highlighting strong engagement across all locations.

- Communities – In FY2013 the Macquarie Group Foundation and Macquarie staff supported over 1,300 community organizations around the world and hosted more than 100 events, where not-for-profit organizations were able to hold seminars, launches or advisory meetings at Macquarie offices. The Foundation is committed to funding best practice standards in the not-for-profit sector and to that end has established initiatives, such as the Macquarie Social Innovation Award, the David Clarke Social Innovation Fellowship – encouraging innovation by community organizations and not-for-profit CEOs respectively - and several Social Innovation Summits, which bring together business, the community sector and government to collectively investigate ways of addressing long-term social problems. A more detailed overview of the Macquarie Group Foundation as well as the Foundation's annual report is available on the Macquarie website.

About these disclosures

Macquarie has used the Global Reporting Initiative as the guiding framework for sustainability disclosures contained within the Annual Financial Report and Annual Review. The content of the disclosures is based on Macquarie's ESG priorities, the interests of stakeholders, including investors and analysts, and the applicable GRI indicators.

Consistent with Macquarie's approach to sustainability, information concerning governance, environment, social and economic performance is presented throughout the Report rather than as a separate disclosure. A GRI index is available on macquarie.com.au.

Risk Management Report

Introduction – Macquarie's risk management framework

Macquarie's risk management framework is well established and proven. Some refinements have been made to the framework as Macquarie's businesses have evolved over the past years. However, Macquarie's core risk management principles have remained stable and continue to be highly effective. These are:

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

Understanding worst case outcomes – Macquarie's risk management approach is based on examining the consequences of worst case outcomes and determining whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, Macquarie's market risk framework is based primarily on the application of stress tests, rather than statistical models. 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. While Macquarie operates a number of sophisticated quantitative risk management processes, the foundation of its risk management approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals.

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

Macquarie determines its overall appetite for risk with reference to earnings and not just capital. Aggregate risk is expressed by setting a Global Risk Limit designed to ensure that in a prolonged and severe downturn, losses would be covered by earnings and surplus capital, and market confidence in Macquarie is maintained.

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 influencing and limiting positions particularly for extreme loss events. For example, we apply limits to contingent losses from an instantaneous 40 per cent gap move in stock prices. This effectively constrains trading divisions from issuing well out of the money options and encourages hedging of extreme loss events. We have over 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 provides an independent confirmation of the risk acceptance decision. RMG works closely with the deal team and shares the goal of making the transaction successful by requiring improvements to the transaction terms where applicable. Strong emphasis is placed on transferring knowledge to transaction teams so that the same risk management principles are applied to future proposals from an early stage
- **Macquarie's remuneration policy for senior management encourages a long-term view in decision making.** It discourages excessive risk taking as incentives are aligned with the long-term profitability of the firm through retention of remuneration and equity participation. The principles behind our current remuneration structure have been in place for many years.

Risk governance structure

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

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 CEO. The Chief Risk Officer has a secondary reporting line to the Board Risk Committee that 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 that may have some impact on the effectiveness of the risk management framework. It also approves significant changes to risk management policies and framework and approves Macquarie's risk appetite. The Board Risk Committee is assisted by the following Committees:

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

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

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

Risk Management Group

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

Independence

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

Centralised prudential management

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

Approval of all new business activities

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

Continuous assessment

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

Frequent monitoring

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

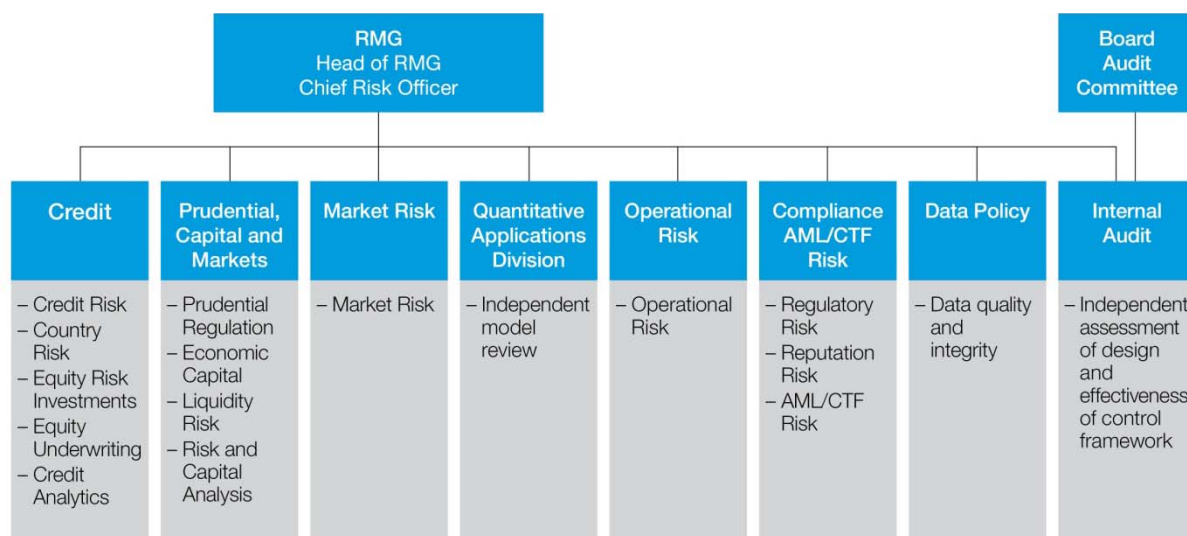
Risk Management Report

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RMG structure and resourcing

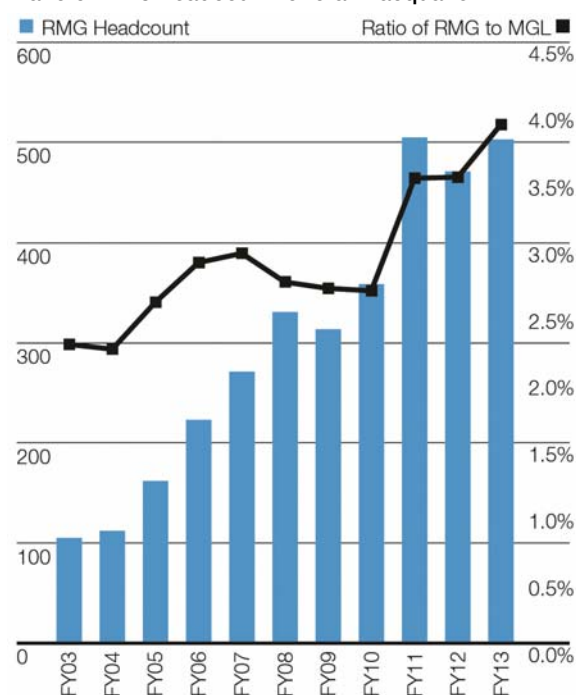
Effective risk management is not only a function of disciplined processes but also of imaginative analysis by talented individuals. RMG attracts high calibre candidates. It recruits experienced individuals both from within Macquarie and externally and is a source of talent for Macquarie's Operating Groups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

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



The change in staffing levels within RMG is generally in line with the changes in staffing overall at Macquarie. RMG staff numbers as at 31 March 2013 were 503, which is a seven per cent increase over the year. During FY13 some of the business aligned compliance staff were transferred into RMG.

Ratio of RMG headcount to total Macquarie⁽¹⁾



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

To ensure that, on a global basis, risks are managed in a controlled manner, about half of total RMG staff as at 31 March 2013 were based outside of Australia. All offices are subject to the same risk management controls and standards. This is supported by regular staff communication and visits to international offices.

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

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

New business and acquisitions

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

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

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

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

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

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

Risk management and monitoring

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

Equity risk

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

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

Equity Risk Limit

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

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

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

Transaction review and approval process

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

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

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

Risk Management Report

continued

Credit risk

Credit Risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not paid back or the loss incurred in replicating a trading contract with a new counterparty.

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

Analysis and approval of exposures

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

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

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

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

Independent analysis

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

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

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

Macquarie Group ratings

Macquarie 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 ratings are used to estimate the likelihood of the counterparty defaulting on financial obligations. The

Macquarie ratings system ensures a consistent assessment of borrower and transaction characteristics across Macquarie and provides the mechanism for meaningful differentiation of credit risk.

Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

All wholesale exposures are allocated a Macquarie rating on a 1–17 scale that broadly corresponds to Standard & Poors' and Moody's Investor Services credit ratings. Credit Assurance, located within RMG, independently verifies the effectiveness of Macquarie's credit risk management.

Measuring and monitoring exposures

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

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. RMG Credit Analytics proposes and reviews the stresses that are applied in order to determine high confidence level counterparty exposures. These stresses are back-tested to ensure that they would have provided the required confidence level over a representative historical period. Credit stresses are determined using a combination of fundamental and technical analysis.

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 that fluctuate through time are updated daily. These include off-balance sheet exposures such as swaps, forward contracts and options that 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.

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

A review of the credit portfolio that involves 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 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 that recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

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

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

Country risk

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

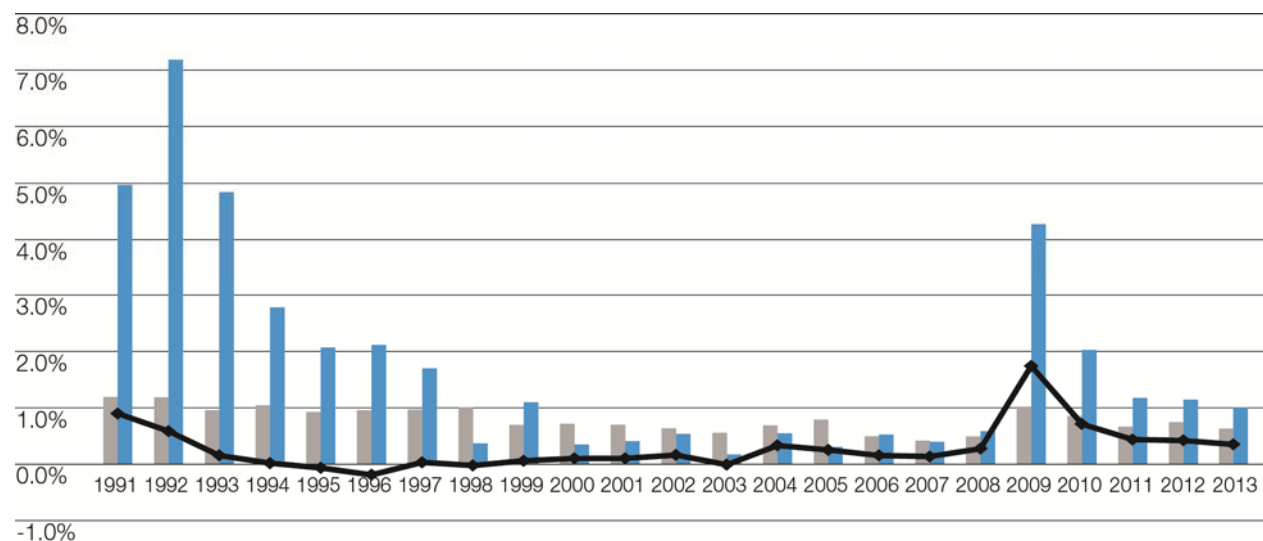
The *Country Risk Policy* guides the management of Macquarie's country risk. Countries are grouped into categories based on the country's risk profile. Before any exposure is taken in a country that is considered to be high risk, a review of the economic, political and operating environment is undertaken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

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

Collective provision to loans, advances and leases (Balance sheet) ■

Net impaired assets to loans, advances and leases (Balance sheet) ■

Net credit losses to loans, advances and leases (Income statement) —



Notes:

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

Risk Management Report

continued

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. RMG is also responsible for Macquarie's operational risk capital measurement methodology.

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

Operational Risk Management framework

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

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

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

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

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

Over time operational risk capital changes to reflect:

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

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

Market risk

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

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

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

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

Trading market risk

All trading activities contain calculated elements of risk taking. Macquarie is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

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

Limits are approved by senior management with appropriate authority for the size and nature of the risk, and Macquarie adheres to a strict 'no limit, no dealing' policy. If a product or position has not been authorised and given a limit structure by RMG, then it cannot be traded. Material breaches of the approved limit structure are communicated monthly to the Macquarie and Macquarie Bank Boards. RMG sets three complementary limit structures:

- **contingent loss limits** – worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives
- **position limits** – volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value-at-Risk (VaR) limits** – statistical measure that determines the potential loss in trading value at both a business and aggregate level.

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

Aggregate measures of market risk

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

Risk Management Report

continued

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 remained stable as trading businesses managed exposures in light of ongoing macroeconomic uncertainty. The average exposure to the MEL stress test scenario represents less than four per cent of total equity.

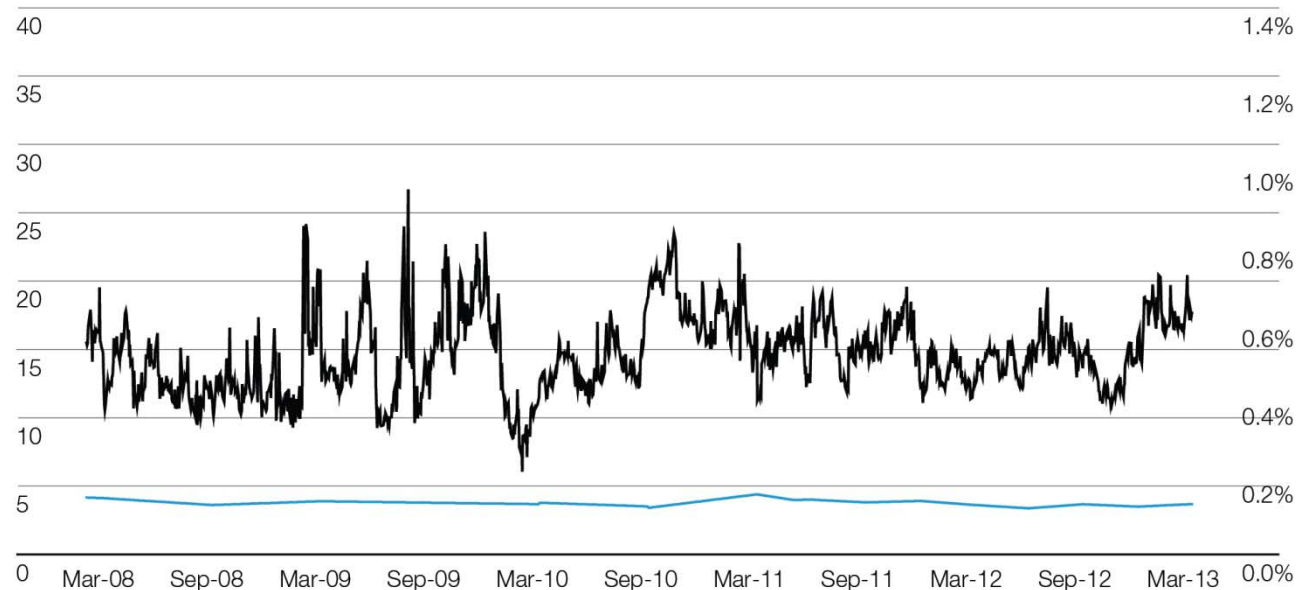
Aggregate VaR

VaR (1-day 99% confidence level) –

\$A million

Average VaR to total equity –

%



VaR figures for year ended 31 March 2013 (1-day, 99% confidence level)

	2013 Average \$Am	2013 Maximum \$Am	2013 Minimum \$Am	2012 Average \$Am	2012 Maximum \$Am	2012 Minimum \$Am
Equities	4.26	6.64	2.78	7.26	10.03	4.26
Interest rates	10.45	14.19	8.19	10.91	14.72	8.00
Foreign exchange and bullion	2.58	7.00	0.42	2.36	6.22	0.86
Commodities and energy	10.02	16.95	6.35	9.53	15.11	6.41
Aggregate	14.95	20.44	10.94	14.99	19.57	11.07

Trading revenue

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

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

Macquarie's trading approach has shown consistent profits and low volatility in trading results over time. This is evident in the histograms below, and reflects the client-based nature of trading activities. In FY2013 Macquarie made a net trading profit on 221 out of the 260 trading days (2012 results: 205 out of 260 trading days).

Non-traded market risk

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



Risk Management Report

continued

Economic capital

Macquarie has developed an economic capital model that quantifies Macquarie's aggregate level of risk.

The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of Macquarie's risk profile.

The economic capital model is used to support business decision-making and has three main applications:

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

Capital adequacy assessment

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

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

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

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

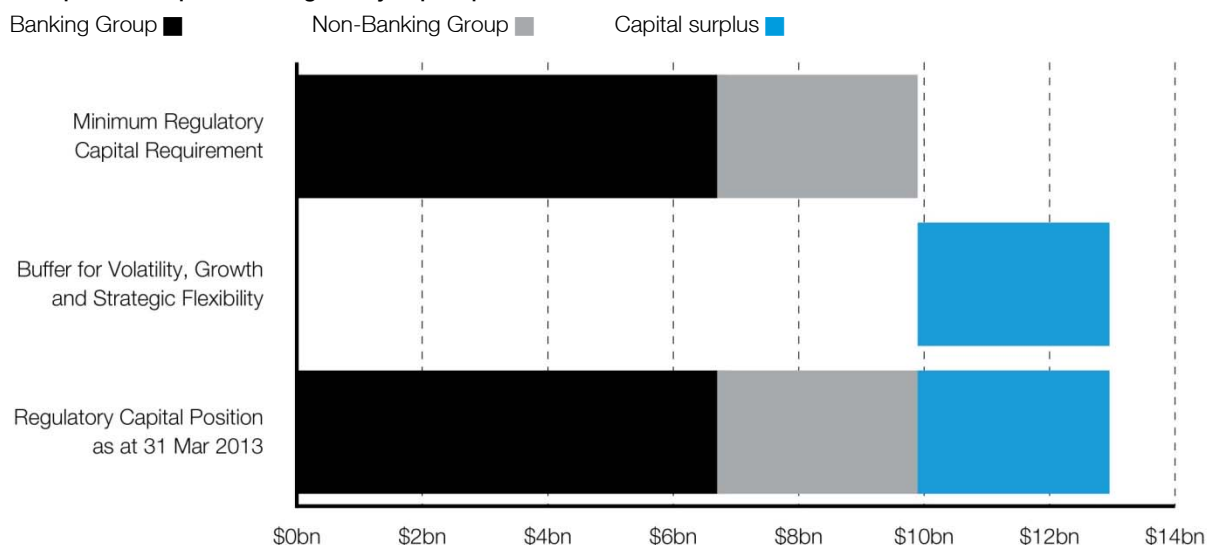
The ECAM quantifies the following types of risk:

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

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

The regulatory capital requirement of Macquarie's non-banking entities as agreed with APRA is determined by the ECAM. Macquarie's regulatory capital position as at 31 March 2013 is set out below.

Macquarie Group Limited regulatory capital position 31 March 2013⁽¹⁾



⁽¹⁾ Calculated at the internal minimum Tier 1 ratio of the Banking Group, which is 7%

Macquarie is currently well capitalised – a substantial regulatory capital surplus exists. An element of this surplus is set aside as a buffer against volatility in the drivers of capital adequacy. The remaining capital surplus is available to support growth and provide strategic flexibility.

In order to reduce volatility in Macquarie's capital adequacy, Macquarie actively manages the sensitivity of its capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the Foreign Currency Translation Reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

The Common Equity Tier 1, Tier 1 and total capital ratios for the Banking Group as at 31 March 2013 were 9.7 per cent, 10.8 per cent and 13.5 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 aggregate and specific risk limits, relevant policies, and 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 that 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 that set out the principles that govern the acceptance and management of risks. A key policy is the *New Product and Business Approval Policy*, which 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.

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

Existing businesses are subject to regular risk-return monitoring and reporting.

The Risk Appetite Test – an aggregate stress test

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

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

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.

Risk Management Report

continued

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 MGL and MBL. MGL provides funding principally to the Non-Banking Group and limited funding to some MBL Group subsidiaries. MBL provides funding to the Banking Group.

The high level funding structure within Macquarie is shown below.

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and RMG. MGL and MBL liquidity policies are approved by the respective Boards after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis.

The Asset and Liability Committee includes the CEO, MBL CEO, CFO, Chief Risk Officer and Business Group Heads.

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

Liquidity policy and principles

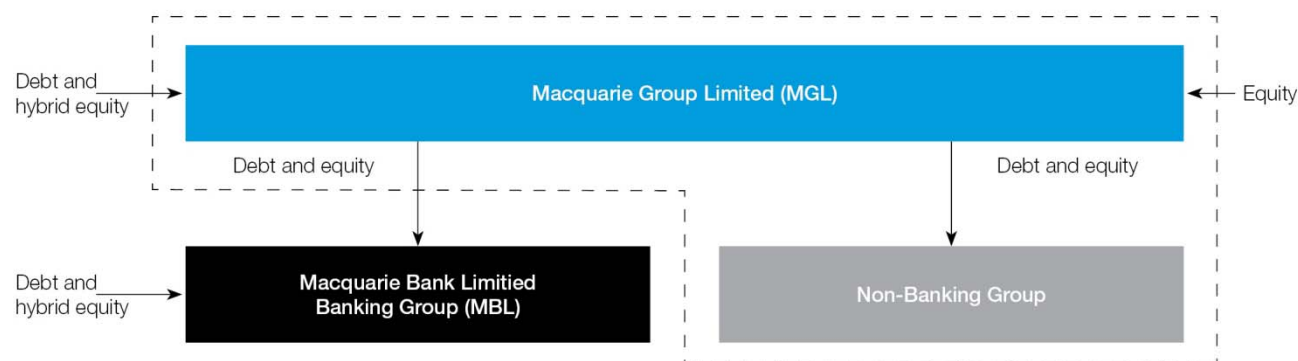
MGL provides funding predominantly to the Non-Banking Group. As such, the *MGL Liquidity Policy* outlines the liquidity requirements for the Non-Banking Group. The key requirement of the policy is that MGL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity 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.

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.

Macquarie Group – high level funding structure



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 at least annually
- a funding strategy is prepared annually and the funding position is monitored on an ongoing basis throughout the year
- 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 and strong relationships are maintained.

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 MGL and MBL 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 the ability of MGL and MBL to meet all repayment obligations under each scenario and determine the capacity for asset growth.

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

Liquid asset holdings

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

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions. The size of the liquid asset portfolio must exceed the minimum cash requirement as calculated in this model at all times.

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90 per cent of the liquid asset portfolio held to meet the minimum liquid asset requirement must be eligible for repurchase with a central bank. The remainder must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2013, 98 per cent of the liquid asset portfolio was central bank repo eligible.

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

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

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Macquarie Group and defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of actions to be taken and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG and is submitted to the Board for approval.

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the liquidity contingency plan contains a supplement providing the specific information required for those branches or subsidiaries.

Funding transfer pricing

An internal funding transfer pricing framework is in place that 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 business units that provide long-term stable funding.

Risk Management Report

continued

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.

Legal risk

Legal risk includes the risk that:

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

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

Reputation risk

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

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

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

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

The direct financial losses arising from reputation risk (such as breach of mandates and regulatory fines) 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 quality and effectiveness of Macquarie's internal control, risk management and governance systems and processes. 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 whether those controls are working effectively. Internal Audit is independent of both business management and the activities it reviews.

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

Basel III

Macquarie Bank is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk⁽¹⁾ and the internal model approach for interest rate risk in the banking book.

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

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

Regulatory developments

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

Capital and liquidity

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.

APRA has required Australian banks to follow an accelerated Basel III implementation compared to the Basel Committee's gradual phase-in of Basel III, with the regulatory capital requirements taking effect from 1 January 2013. All new transactions and business activities are assessed on this basis.

APRA has added more conservative overlays ('super-equivalence') to the Basel Committee's Basel III capital requirements. For this reason, Macquarie will report both the APRA Basel III capital position and a Harmonised Basel III position using the Basel Committee's Basel III rules.

Structural reforms for banks

Several jurisdictions are assessing or implementing structural reforms that focus on the separation between, and overarching supervision of, banking activities and other financial and non-financial activities. The most relevant of these reforms to Macquarie is APRA's draft framework for supervision of conglomerate groups, certain elements of which would replace requirements currently imposed on Macquarie Group Limited through its Authorisation as a Non-Operating Holding Company of an ADI. It is not yet clear what impact these reforms will have on Macquarie, however Macquarie will continue to monitor these developments. Structural reforms in jurisdictions outside of Australia are unlikely to have a material impact on Macquarie.

Over-the-counter (OTC) derivative transactions

Significant regulatory changes are being implemented in global OTC markets, focusing on mandatory clearing and reporting of derivative transactions to regulators in a number of countries. During the financial year MBL and Macquarie Energy LLC (MBL's North American energy trading subsidiary) were registered as swap dealers in the US and have commenced complying with required obligations, including transaction reporting and clearing. European reforms are in the process of being implemented with other G20 jurisdictions looking to adopt measures that are comparable with US and EU regimes. Proposed laws have also been introduced into Australia.

Directors' Report

for the financial year ended 31 March 2013

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (Macquarie, MGL, the Company), the Directors submit herewith the income statements and cash flow statements for the year ended 31 March 2013 and the balance sheets as at 31 March 2013 of the Company and its subsidiaries (the Consolidated Entity) at the end of, and during, the financial year ended on that date and report as follows:

Directors

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

Independent Directors

H.K. McCann AM, Chairman

M.J. Coleman⁽¹⁾

D.J. Grady AM

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

Other than Mr Coleman, the Voting Directors listed above each held office as a Director of Macquarie throughout the financial year ended 31 March 2013. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

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

⁽¹⁾ Mr Coleman joined the Board on 9 November 2012.

Meeting attendance

Directors' meetings

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

Board meetings

	Monthly Board meetings (12)		Special Board meeting (1)	
	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended
H.K. McCann	12	12	1	1
N.W. Moore	12	12	1	1
M.J. Coleman ⁽¹⁾	5	5	-	-
D.J. Grady	12	12	1	1
M.J. Hawker	12	12	1	1
P.M. Kirby	12	12	1	1
C.B. Livingstone	12	11	1	1
J.R. Niland	12	12	1	1
H.M. Nugent	12	12	1	1
P.H. Warne	12	12	1	1

Board Committee meetings

	Board Audit Committee meetings (7)		Board Governance and Compliance Committee meetings (6)		Board Nominating Committee meetings (12)		Board Remuneration Committee meetings (9)		Board Risk Committee meetings (6)	
	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended
H.K. McCann	-	-	-	-	12	12	9	8	6	6
N.W. Moore	-	-	-	-	-	-	-	-	6	6
M.J. Coleman	3	3	-	-	-	-	-	-	2	2
D.J. Grady	-	-	-	-	-	-	9	8	6	6
M.J. Hawker ⁽²⁾	7	7	5	5	-	-	-	-	6	6
P.M. Kirby	7	7	6	6	-	-	-	-	6	6
C.B. Livingstone	7	6	6	4	12	11	-	-	6	5
J.R. Niland	-	-	6	6	-	-	9	9	6	6
H.M. Nugent	-	-	-	-	12	12	9	9	6	6
P.H. Warne ⁽³⁾	7	7	1	1	10	10	9	8	6	6
G.C. Ward ⁽⁴⁾	-	-	-	-	-	-	-	-	6	6

There were three Board sub-committee meetings. The first meeting was attended by all of its members, being Mr McCann, Mr Moore and Ms Livingstone. Both of the following meetings were attended by all of that sub-committee's members, being Mr McCann, Mr Moore, Ms Livingstone and the Chief Financial Officer, Mr Patrick Upfold.

The Chairman of the Board generally attends meetings of Board Committees even where not a member. All Board members are sent Board Committee meeting agendas and may attend any Board Committee meeting.

⁽¹⁾ Mr Coleman was appointed to the Board as an Independent Voting Director effective from 9 November 2012.

⁽²⁾ Mr Hawker joined the Board Governance and Compliance Committee (BGCC) on 1 May 2012.

⁽³⁾ Mr Warne joined the Board Nominating Committee and ceased to be a member of the BGCC on 1 May 2012.

⁽⁴⁾ Mr Ward is not a Voting Director of Macquarie Group Limited. He is the Managing Director and Chief Executive Officer of Macquarie Bank Limited.

Directors' Report

for the financial year ended 31 March 2013

continued

Principal activities

The principal activity of the Company during the financial year ended 31 March 2013 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 2013 and 31 March 2012, 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 2013 was \$A851 million (2012: \$A730 million).

Dividends and distributions

Subsequent to year end, the Directors have announced a final ordinary dividend of \$A1.25 per share, 40 per cent franked based on tax paid at 30 per cent (\$A420 million in aggregate). The final ordinary dividend is payable on 2 July 2013.

On 12 December 2012, MGL paid an interim ordinary dividend of \$A0.75 per share unfranked (\$A252 million in aggregate) in respect of the financial year ended 31 March 2013.

On 2 July 2012, MGL paid the final dividend of \$A0.75 per share unfranked (\$A259 million in aggregate) in respect of the financial year ended 31 March 2012.

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

State of affairs

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

Review of operations and financial result

Profit attributable to ordinary equity holders was \$A851 million for the year ended 31 March 2013, up 17 per cent from \$A730 million in the prior year.

Macquarie's annuity style businesses – Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services – continued to perform well. The combined net profit contribution of these businesses for the year ended 31 March 2013 increased 10 per cent on the prior year. Macquarie Funds and Corporate and Asset Finance benefited from increased assets under management and loan and lease volumes respectively, while Banking and Financial Services' improved result was largely driven by cost reductions.

Macquarie's capital markets facing businesses – Macquarie Securities, Macquarie Capital and Fixed Income, Currencies and Commodities – although continuing to face subdued market conditions in most businesses, delivered a combined net profit contribution for the year ended 31 March 2013 that increased 54 per cent on the prior year. Macquarie Securities and Macquarie Capital continued to be impacted by low activity levels across equity capital markets and mergers and acquisitions. Lower income from these businesses was more than offset by a significant decrease in operating expenses resulting from cost initiatives undertaken over the past two years, driving improved results for these businesses.

Net operating income of \$A6,700 million for the year ended 31 March 2013 decreased 4 per cent from \$A6,963 million in the prior year, and total operating expenses decreased 10 per cent from \$A5,914 million in the prior year to \$A5,295 million for the year ended 31 March 2013. Key drivers of the changes from the prior year are:

- A 19 per cent increase in net trading income to \$A1,234 million for the year ended 31 March 2013 from \$A1,035 million in the prior year primarily in Fixed Income, Currencies and Commodities with the business experiencing improved market conditions across most markets, particularly energy, agricultural, credit and financial markets. In comparison, the prior year was adversely impacted by extreme volatility and uncertainty, particularly in credit and financial markets.
- A 2 per cent increase in fee and commission income to \$A3,422 million for the year ended 31 March 2013 from \$A3,364 million in the prior year. Aggregate base and performance fees of \$A1,183 million for the year ended 31 March 2013 increased 11 per cent from \$A1,068 million in the prior year, primarily due to an increase in assets and equity under management combined with higher performance fees earned from funds outperforming their benchmarks. These increases were offset by reduced brokerage and commissions income impacted by lower volumes across equity markets, and reduced fee income from mergers and acquisitions, advisory and underwriting activity as capital market conditions remained subdued.
- A 48 per cent decrease in other operating income and charges to \$A585 million for the year ended 31 March 2013 from \$A1,123 million in the prior year. The decrease was due to a number of factors, most notably:
 - the prior year benefitting from a number of items including the receipt of a special distribution of

- \$A295 million from Sydney Airport and the gain of \$A104 million on the sale of a North American oil asset;
- an increase in aggregate impairment charges on investment securities available for sale and interests in associates and joint ventures of 85 per cent to \$A388 million for the year ended 31 March 2013 from \$A210 million in the prior year. In particular, weak investor sentiment and confidence in resource equity markets as well as underperformance in certain investments adversely impacted equity values of some listed investments in Fixed Income, Currencies and Commodities; and
- reduced income from investments in non-financial operations and Net Profit Interests within Fixed Income, Currencies and Commodities that were sold in the prior year.
- A 10 per cent reduction in total operating expenses from \$A5,914 million in the prior year to \$A5,295 million for the year ended 31 March 2013 achieved as a result of cost management initiatives undertaken over the past two years, including the centralisation of support functions to generate scale benefits through improved operational efficiencies and the exiting of selected businesses. These initiatives were primarily responsible for a 12 per cent reduction in headcount over the past two years from 15,556 at 31 March 2011 to 13,663 at 31 March 2013. The compensation ratio of 45.9 per cent for the year ended 31 March 2013 decreased from 47.9 per cent in the prior year.

Income tax expense for the year ended 31 March 2013 was \$A533 million, up 86 per cent from \$A287 million in the prior year due to a combination of higher operating profit before income tax as well as increased profitability in the US, the write-down of certain international group tax assets and increased provisioning for tax uncertainties. These factors have resulted in an effective tax rate for the year ended 31 March 2013 of 38.5 per cent, up from 28.2 per cent in the prior year.

A summary of the performance of Macquarie's operating segments is provided below.

Macquarie Funds delivered a net profit contribution of \$A755 million, up 17 per cent on the prior year. The result was driven by strong annuity base fee income as well as structuring and performance fee income predominantly earned as a result of a number of infrastructure funds outperforming their respective benchmarks. Assets under management increased by 6 per cent to \$A343.5 billion.

Corporate and Asset Finance delivered a net profit contribution of \$A694 million, broadly in line with the prior year. CAF increased its asset finance and corporate lending portfolio by 9 per cent to \$A22.4 billion at 31 March 2013. Its motor vehicle leasing portfolio increased by 18 per cent on the prior year and the business expanded into the UK, entering the independent contract hire market. Other initiatives during the year included the acquisition of a European rail leasing platform and the continued expansion of the UK meters portfolio and the mining equipment finance business.

Banking and Financial Services delivered a net profit contribution of \$A335 million, up 22 per cent on the prior year. BFS continued to grow its top-ranked Australian wrap platform, with funds under administration increasing 14 per cent to \$A25.1 billion. The migration of Perpetual's \$A7.6 billion private wealth administration platform to Macquarie Wrap was completed post balance date. The Australian mortgage portfolio increased by 9 per cent to \$A11.8 billion and the business formed a distribution alliance with Australian financial services company Yellow Brick Road and also acquired an equity stake in Home Loans Limited in April 2013. The acquisition of GE Capital's Australian insurance premium funding provider, Pacific Premium Funding, created Australia's second largest premium funder. BFS maintained its number one position for full-service retail stockbroking in Australia for the sixth successive year, while increasing its retail deposits by 7 per cent to \$A31 billion. In January 2013, Macquarie Private Wealth entered an Enforceable Undertaking with the Australian Securities and Investments Commission and is committed to implementing the changes necessary to improve its compliance processes and systems.

Macquarie Securities reported a net loss of \$A50 million, an improvement from a net loss of \$194 million in the prior year. MSG continued to experience subdued activity levels due to weak investor confidence but benefited from improved market volumes in the fourth quarter, together with reduced operating expenses and lower legacy costs. It maintained its leading position for Australian equities among institutional investors globally, continued to grow its US cash equities activities and invested in market execution technology.

Macquarie Capital delivered a net profit contribution of \$A150 million, up 76 per cent on the prior year. It advised on 447 transactions worth \$A85 billion during the year including: China Gas on its successful defence of the \$US2.2 billion unsolicited pre-conditional offer; Tokio Marine Holdings on its \$US2.7 billion acquisition of Delphi Financial Group, for which it won a number of awards including M&A Deal of the Year (\$US1-3 billion) from M&A Advisor; Goodman Group on the \$A638 million equity raising for the \$A5.1 billion Goodman Australia Industrial Fund; and won the North American Toll Road Deal of the Year from Project Finance Magazine for its role in the \$US2.1 billion Downtown Tunnel road construction project in Virginia.

FICC delivered a net profit contribution of \$A563 million, up 4% on the prior year. FICC benefited from a general improvement in market conditions across most of its businesses compared to the prior year. Improved client risk appetite in credit and interest rate markets benefited the Credit Trading and Fixed Income and Currencies divisions, while there were strong trading conditions across the global energy platform. Futures volumes increased in all key regions and agricultural markets experienced improved trading conditions and customer activity. Weak investor sentiment and confidence in resource equity markets, as well as underperformance in certain investments, resulted in an increase in impairments on some listed equity holdings in the Metals and Energy Capital business but these were partially offset by profits on some equity realisations.

Directors' Report

for the financial year ended 31 March 2013

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 were \$A20 billion at 31 March 2013 representing approximately 13 per cent of the Consolidated Entity's total assets, or 23 per cent of the Consolidated Entity's net funded assets.

Retail deposits increased by 7 per cent from 31 March 2012 to \$A31 billion at 31 March 2013, while total deposits increased from \$A33.9 billion at 31 March 2012 to \$A36.2 billion at 31 March 2013. During the year ended 31 March 2013, \$A9.7 billion of new term funding was raised and \$A2.8 billion of government guaranteed debt was repurchased with a plan to launch a public tender to repurchase additional outstanding government guaranteed debt.

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-Bank 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 Bank 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-Bank Group's capital requirement, calculated using Macquarie's ECAM. Transactions internal to the Macquarie Group are eliminated.

The Consolidated Entity has satisfied its regulatory capital requirements throughout the year. At 31 March 2013, the Macquarie Bank Group had a Common Equity Tier 1 Capital Ratio of 9.7 per cent and a Tier 1 Capital Ratio of 10.8 per cent. The Consolidated Entity remains well capitalised with \$A3.1 billion of eligible capital in excess of the minimum regulatory capital requirements⁽¹⁾.

During the year, \$A251 million of shares were purchased under the buyback at an average price of \$A25.58 per share. Macquarie intends⁽²⁾ to purchase approximately \$A250 million of shares on-market to satisfy the requirements of the Macquarie Group Employee Retained Equity Plan. The buying period for the MEREP will commence on 13 May and is expected to be completed in early July⁽³⁾. The shares for the Dividend Reinvestment Plan are to be acquired on-market⁽²⁾.

Macquarie intends to replace the 2008 Convertible Preference Securities (CPS) with a new security. There will be a reinvestment offer for existing CPS holders and a priority offer for Macquarie Group Limited shareholders. The final terms are subject to regulatory approval.

- (1) Macquarie Group Regulatory Capital surplus under APRA Basel III (at 7% Bank Group RWAs). 7% is the internal minimum Tier 1 ratio of the Bank Group.
- (2) Shares will be issued if purchasing becomes impractical or inadvisable
- (3) Actual buying may be completed sooner or later. Buying for the MEREP will be suspended during the DRP and hybrid pricing periods.

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 2013 not otherwise disclosed in this report.

Likely developments in operations and expected outcomes

While market volatility makes forecasting difficult, subject to market conditions it is currently expected that net profit contribution from operating groups for the financial year ending 31 March 2014 will be up on the prior year.

The tax rate is currently expected to be in the mid 30 per cent range based on the present mix of income.

Accordingly, the Group's result for the financial year ending 31 March 2014 is expected to be an improvement on the prior year provided market conditions for the financial year ending 31 March 2014 are not worse than those experienced over the past 12 months.

The result for the financial year ending 31 March 2014 also remains subject to a range of other challenges, including: the cost of our continued conservative approach to funding and capital; regulation, including the potential for regulatory changes; increased competition in some markets; and the overall cost of funding.

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

Executive summary	42
Introduction	44
1 Macquarie's remuneration framework and approach appropriately supports the overarching objective of delivering superior value for shareholders over the long-term while prudently managing risk	45
1.1 Macquarie's overall remuneration objectives remain appropriate	45
1.2 The remuneration framework is appropriate	45
1.3 The way the remuneration framework operates is appropriate	47
1.3.1 How the features operate together to provide shareholder alignment	47
1.3.2 Profit share retention levels	48
1.3.3 Investment of retained profit share	49
1.3.4 Forfeiture of retained profit share for employees (Malus)	50
1.3.5 Early vesting and release of retained profit share	50
1.3.6 Performance share units (PSUs)	52
1.3.7 No special contractual termination payments	54
2 In challenging circumstances, Macquarie has delivered improved results for shareholders while appropriately managing remuneration for staff	55
3 Macquarie has performed creditably relative to peers	58
4 Strong remuneration governance has been exercised	62
4.1 Strong Board oversight exists to ensure sound overall remuneration governance	62
4.2 An independent remuneration review has been undertaken	64
5 Non-Executive Directors continue to be recognised for their role	65
5.1 Non-Executive Director remuneration policy	65
5.2 Board and Committee fees	65
5.3 Minimum shareholding requirement for Non-Executive Directors	66
Appendices: Key Management Personnel (KMP) disclosures	67
Appendix 1: KMP	67
Appendix 2: Supplementary remuneration disclosures	68
Appendix 3: Statutory Remuneration disclosures	69
Appendix 4: Share and option disclosures	74

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

Executive summary

During the year, Macquarie's Board of Directors (the Board) and the Board Remuneration Committee (the BRC) have assessed whether Macquarie's remuneration approach continues to support its objective of generating superior returns for shareholders having due regard for risk. In undertaking this assessment, the Directors of the Board (Directors) have considered factors including the degree of alignment between staff and shareholders, the evolving regulatory landscape, market developments, feedback from shareholders as well as the employment environment. Directors have also been mindful of the subdued market conditions experienced by some businesses during the year and have closely examined the resilience of the remuneration system, given the performance of each business.

Directors have concluded that Macquarie's remuneration approach remains sound and is delivering results for shareholders while risk is being prudently managed, despite a challenging external environment.

They support this conclusion for the following reasons.

The objectives and framework remain appropriate.

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

Fixed remuneration for senior staff remains relatively low compared to comparable roles in other organisations, although it is sufficient to avoid inappropriate risk-taking. Moreover, it is low as a proportion of overall remuneration. In 2013, fixed remuneration for Macquarie's 11 Executive Committee members comprised approximately 12 per cent of current year awarded remuneration. The balance remains at risk and is explicitly linked to performance.

Performance-based remuneration is aligned with shareholders' interests. The profit share pool is determined annually using the twin measures of net profit after tax (NPAT) and return on equity (ROE), measures which are known to be drivers of returns to shareholders. A portion of Macquarie's profit earned accrues to the profit share pool. Once the cost of equity capital is met, an additional portion of excess profit is accrued to the profit share pool. No ROE component of the profit share pool was created in FY2013. However, in line with policy, the Non-Executive Directors exercised their discretion to make an upward adjustment to the quantum of the profit share pool to recognise superior performers in those businesses that overall were impacted by subdued market conditions. In the past, such discretion has been exercised both down and up. Over time, the net aggregate impact on net profit of the exercise of these discretions has been nominal. Non-Executive Directors do not consider shareholders' long-term interests would be served by losing the services of superior contributors whose performance was not adequately recognised. Indeed, they consider that the "investment" made in these businesses is paying dividends.

Profit share is allocated to Macquarie's businesses and, in turn, to individuals, based predominantly on performance. Performance criteria vary depending on an individual's role including:

- contribution to NPAT and ROE
- risk management and compliance assessed through independent reports from the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and Human Resources (HR)
- people leadership
- upholding Macquarie's *Goals and Values*.

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

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

- retained and deferred over a long period (for example, 70 per cent of the Managing Director and Chief Executive Officer's (Managing Director and CEO) profit share allocation is retained for up to seven years). After PSUs are taken into account, the effective deferral rate for the Managing Director and CEO is 77 per cent for this year
- delivered in equity
- subject to forfeiture in certain circumstances.

PSUs are allocated to Executive Committee members based on their performance, using criteria similar to those used for profit share. PSUs vest in equal tranches after three and four years and are exercisable subject to the achievement of two performance hurdles, with no retesting. 50 per cent of the PSUs will become exercisable based on Macquarie's ROE performance relative to ten global investment banks based on a sliding scale. 50 per cent will become exercisable above the 50th percentile and 100 per cent at the 75th percentile. The reference group has been amended going forward to exclude Australian commercial banks, instead focusing on organisations against whom Macquarie benchmarks its performance. The other 50 per cent of PSUs will become exercisable in future based on Macquarie's compound average annual growth (CAGR) in earnings per share (EPS) on a sliding scale. 50 per cent will become exercisable where EPS CAGR is 7.5 per cent and 100 per cent will become exercisable where it is 12 per cent or higher. The EPS CAGR hurdle range has been amended in future from the previous range of 9 –13 per cent to

reflect changes in market conditions.

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

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

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

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

Performance metrics are creditable including against peers.

In challenging circumstances, Macquarie has delivered improved results for shareholders while appropriately managing remuneration for staff. This can be demonstrated in the following ways.

The table below shows that over the past year, NPAT has increased by 17 per cent, basic EPS by 20 per cent and dividends by 43 per cent, while total staff compensation expense has decreased by 8 per cent. Macquarie's NPAT growth rate over the past year has been faster than all but one of its global peers. At the same time, the compensation expense to income ratio has declined from 47.9 per cent to 45.9 per cent, placing it in the lower range of peers. Macquarie recorded a 7.8 per cent annual ROE, which is recognised as needing improvement. Nonetheless, only four of ten peers generated a higher ROE. In relation to Total Shareholder Return (TSR), Macquarie has outperformed all its global peers over the past year, generating a TSR for shareholders of 34.4 per cent.

		2013	2012	Increase/(Decrease)%
Performance measures				
NPAT	\$Am	851	730	17
Basic EPS	Cents per share	251.2	210.1	20
Dividends	Cents per share	200.0	140.0	43
Annual TSR ⁽¹⁾	Per cent	34.4	(16.0)	
Executive remuneration measures				
Total Compensation Expense	\$Am	3,072	3,335	(8)
Compensation Expense to Income ratio	Per cent	45.9	47.9	
Present Pay – CEO ⁽²⁾	\$Am	3.08	2.85	8
Future Pay – CEO ⁽²⁾	\$Am	7.51	6.67	13
Statutory Remuneration – CEO	\$Am	8.8	7.8	13
Statutory Remuneration – Comparable KMP ⁽²⁾	\$Am	48.6	43.8	11

(1) TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.

(2) Present pay, future pay and Comparable KMP are defined in section 2.

Strong remuneration governance has been exercised.

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

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

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

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

Introduction

Each year, Macquarie assesses whether its long held approach to remuneration remains appropriate.

In undertaking such a review, Directors assess whether Macquarie's objective of generating superior returns for shareholders is being realised, having due regard for risk. In making this assessment, Directors examine:

- the degree of alignment between staff and shareholders
- the evolving regulatory landscape for remuneration
- market developments
- feedback from shareholders
- Macquarie's ability to attract and retain talented staff given the competitive environment
- the resilience of the remuneration system given the relative performance of different areas of its business.

Based on this review, Directors have reached the following conclusion:

Macquarie's remuneration approach remains sound and is delivering results for shareholders in a challenging external environment.

1. Macquarie's remuneration framework and approach appropriately supports the overarching objective of delivering superior value for shareholders over the long-term while prudently managing risk
 2. In challenging circumstances, Macquarie has delivered improved results for shareholders while appropriately managing remuneration for staff
 3. Macquarie has performed creditably relative to peers.
-

Each of these conclusions is outlined in turn.

1 Macquarie's remuneration framework and approach appropriately supports the overarching objective of delivering superior value for shareholders over the long-term while prudently managing risk

1.1 Macquarie's overall remuneration objectives remain appropriate

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

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

- emphasising a performance-based remuneration approach that balances return and risk over the short and longer-term
- employing the twin drivers of profitability and returns in excess of the cost of capital to motivate staff to drive shareholder returns
- structuring remuneration to manage risk in ways that align the interests of staff and shareholders
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives
- remunerating high performing staff appropriately relative to global peers so they are attracted to and stay with Macquarie.

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

Overall remuneration objectives and principles



1.2 The remuneration framework is appropriate

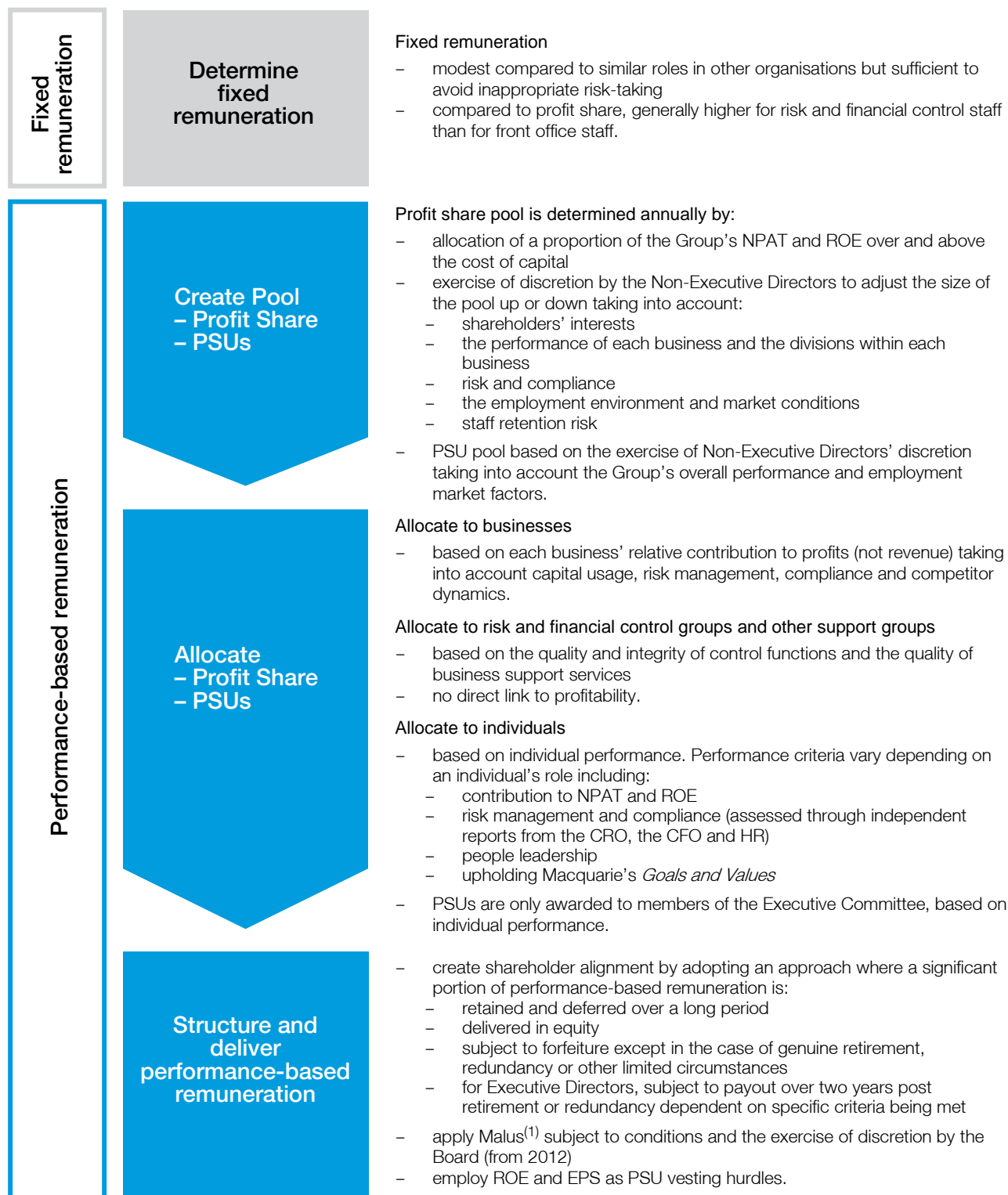
The Board considers that the overall remuneration framework supports the overarching objectives and principles.

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued



⁽¹⁾ See section 1.3.4 for a description.

1.3 The way the remuneration framework operates is appropriate

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

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

The Board has discretion to change the remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments.

1.3.1 How the features operate together to provide shareholder alignment

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

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

⁽¹⁾ Includes both the Managing Director and CEO of Macquarie and the Deputy Managing Director.

⁽²⁾ Executive Directors who are members of Operations Review Committee and others who have a significant management or risk responsibility in the organisation.

⁽³⁾ The vesting period for each profit share allocation is established by the BRC, according to the prevailing market conditions and having regard to regulatory, corporate governance and remuneration developments at the time of allocation. For each year's allocation, once the vesting period has been determined, it will remain fixed for that allocation. Vesting schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in jurisdictions outside Australia to ensure compliance with local regulatory requirements.

⁽⁴⁾ Invested in a combination of equity in Macquarie and its subsidiaries, and notionally in Macquarie-managed fund equity for select groups of staff whose primary role relates to the management of the funds' business.

⁽⁵⁾ As approved by shareholder in December 2009.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

1.3.2 Profit share retention levels

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

Role	Retention %
Managing Director and CEO	70
Deputy Managing Director	50
Other Executive Committee members	50 – 70
Designated Executive Directors	50 – 70
Other Executive Directors	40 – 70

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 developments 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.

1.3.3 Investment of retained profit share

Executive Directors' retained profit share is invested in a combination of Macquarie shares under the Macquarie Group Employee Retained Equity Plan (MEREP)⁽¹⁾, and Macquarie-managed fund equity notionally invested under the Post-2009 DPS Plan⁽²⁾.

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

Role	Post-2009 DPS Plan (notional investment in Macquarie-managed fund equity)	MEREP (Macquarie shares)
Managing Director and CEO, Deputy Managing Director, CRO and Chief Operating Officer (COO)	20%	80%
Executive Committee members with Funds responsibilities	50%	50%
Other Executive Committee members	10%	90%
Executive Directors with Funds responsibilities	50% – 75%	25% – 50%
Other Executive Directors	10%	90%

Both the MEREP and the DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements.

The Board or the BRC has discretion to review the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities and to strengthen shareholder alignment and risk management for Macquarie and the Macquarie-managed funds.

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

Notional returns on retained profit share invested in the Post-2009 DPS Plan may be paid annually to Executive Directors. These amounts are required to be disclosed as remuneration for Executive Key Management Personnel (Executive KMP). The notional returns are calculated based on total shareholder return. If the notional investment of retained profit share results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

⁽¹⁾ The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). Where legal or tax rules make the grant of RSUs impractical, including due to different tax rules for employee equity and different securities laws, equity grants will be in the form of: 1. shares held by the staff member subject to restrictions (Restricted Shares); or 2. the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. For further details on the MEREP structure, refer to Note 33 of the 2013 Financial Statements.

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

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

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

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

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

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations, including for example, Code Staff under the UK Regulators⁽¹⁾ Remuneration Code.

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

The BRC reviews the need to apply *Malus*, as part of its annual remuneration review.

1.3.5 Early vesting and release of retained profit share

As approved by shareholders in December 2009, 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. The Board or its delegate has discretion to accelerate the vesting of retained profit share under these circumstances (subject to the disqualifying events provisions).

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

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

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 this 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. This year such discretion has been exercised in relation to one executive due to the transfer of his employment to an operating asset controlled by a number of Macquarie-managed funds.

In all cases where discretion is exercised, the Board or its delegate may impose such other conditions as it considers appropriate.

⁽¹⁾ With effect from 1 April 2013, the Financial Services Authority has been replaced by two regulatory bodies - Prudential Regulation Authority and the Financial Conduct Authority and are collectively known as "UK Regulators".

1.3.5.1 Disqualifying events provision

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

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

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

	First period	Second period	Third period
Time post departure	6 months	6 months – 1 year	1 year – 2 years
Unvested retained profit share released	From all but the last two years of employment	From the second year prior to the end of employment	From the year prior to the end of employment
Subject to disqualifying events	(a), (b), (c), (d) and (e)	No disqualification during First Period and (a), (b), (d) and (e) in Second Period	No disqualification during First Period and Second Period and (a), (b) and (e) in Third Period

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

1.3.6 Performance share units (PSUs)

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

Determination	<ul style="list-style-type: none"> The Board approves the value of PSUs to be allocated to Executive Committee members each year
Allocation	<ul style="list-style-type: none"> The allocation to individuals⁽²⁾ is based on their performance against a range of factors including: <ul style="list-style-type: none"> financial performance business leadership people and organisational leadership, including upholding Macquarie's <i>Goals and Values</i> risk management
Vesting	<ul style="list-style-type: none"> PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles (refer 1.3.6.1) Grants made prior to 2012 vested in three equal tranches after two, three and four years.
Upon leaving Macquarie	<p>To ensure continued alignment with shareholders post termination, in cases of genuine retirement, PSUs continue to vest in accordance with the above vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit PSUs, when an Executive Committee member leaves Macquarie. To date, this discretion has not been exercised.</p>

⁽¹⁾ Options for Executive Committee members and other staff were discontinued in 2009. Some options remain outstanding.

⁽²⁾ The allocation of PSUs to the Managing Director and CEO, who is an Executive Voting Director, is subject to shareholder approval at the Annual General Meeting.

1.3.6.1 Performance hurdles for PSUs

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

	EPS CAGR Hurdle	ROE Hurdle
Application to PSU awards	50 per cent	50 per cent
Performance measure	Compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years)	Relative average annual return on equity over the vesting period (three to four years) compared to a reference group of global peers ⁽¹⁾
Hurdle	Sliding scale applies: <ul style="list-style-type: none"> – 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent – 100 per cent at EPS CAGR of 12 per cent For example, if EPS CAGR was 9.75 per cent, 75 per cent of the relevant awards would become exercisable.	Sliding scale applies: <ul style="list-style-type: none"> – 50 per cent becoming exercisable above the 50th percentile – 100 per cent at the 75th percentile For example, if ROE achievement was at the 60th percentile, 70 per cent of the relevant awards would become exercisable.
Changes	<ul style="list-style-type: none"> – Hurdles are periodically examined by the BRC as part of their ongoing review of the remuneration approach, to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. – For allocations from 2013, the EPS CAGR hurdle range has been amended from 9%–13% to 7.5%–12%. This change was made to reflect the change in market conditions since the hurdles were first set in 2009. – The continued use of an absolute EPS hurdle requires Macquarie to deliver increased business results before awards are exercisable, lessening the chance that awards could be exercised when results are negative as with the use of a relative measure. 	<ul style="list-style-type: none"> – The ROE Reference Group⁽¹⁾ has been amended for allocations from 2013 onwards to comprise the same group of peers used for ROE performance analysis in Section 3 of the Remuneration Report. – Use of an international peer group recognises the extent of Macquarie's internationalisation and its identified peer group. At 31 March 2013, over half of Macquarie's income and over half of Macquarie's staff were offshore.
Rationale for hurdles	<ul style="list-style-type: none"> – ROE and EPS are considered appropriate measures of performance as they drive longer-term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool. – ROE and EPS are appropriate to the Executive Committee because they can affect outcomes on both measures. In contrast, TSR is influenced by many external factors, including market sentiment, over which executives have limited control. – ROE and EPS can be substantiated using information that is disclosed in audited financial statements. – The use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk taking. – The approach is consistent with that advocated by APRA in not using TSR as a measure. – Being three and four year average measures from 2012 and aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee. 	

⁽¹⁾ The reference group comprises Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group for awards made in 2013 is Bank of America, Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Morgan Stanley and UBS. The reference group for awards made prior to 2013 included Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS as well as significant Australian commercial banks within the ASX 100 (ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp).

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

Testing of hurdles

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

The PSUs which vested in July 2012 comprised the second tranche of those granted in 2009 and the first tranche of those granted in 2010. They did not become exercisable due to the performance hurdles not being met. PSUs that did not meet performance hurdles expired.

PSU Tranche	EPS CAGR Hurdle			ROE Hurdle		
	Macquarie result (for vesting period)	Hurdle	Outcome	Macquarie result (for vesting period)	Hurdle	Outcome
2009 Tranche 2	(12.0%)	At 9%	100% not exercisable	8.4%	> 50 th percentile rank	100% not exercisable
2010 Tranche 1	(19.0%)	At 9%	100% not exercisable	7.3%	> 50 th percentile rank	100% not exercisable

1.3.7 No special contractual termination payments

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

Length of contract	Permanent open-ended
Remuneration review period	1 April to 31 March annually
Profit share participation	Executive Committee members are eligible to be considered for a profit share allocation which ensures that a large part of their remuneration is 'at risk'. Refer to sections 1.3.1-1.3.5 for details.
PSU participation	Executive Committee members are eligible to receive PSUs. Refer to Section 1.3.6 for details.
Termination of employment	Termination of employment by Macquarie or the Executive Committee member requires no more than four weeks notice ⁽¹⁾ .

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

2 In challenging circumstances, Macquarie has delivered improved results for shareholders while appropriately managing remuneration for staff

In the past year, overall profits have increased by 17 per cent, while total compensation has declined as has the compensation expense to income ratio. This reflects Macquarie's continued focus on cost reduction initiatives resulting in an appropriate balance of staff and shareholder needs.

For the most senior executives, performance-based remuneration is usually greater than fixed remuneration. However, for the organisation overall, fixed remuneration comprises a larger proportion of total compensation than the performance-based element. Fixed remuneration, by its nature, limits the ability of the cost base to respond to changes in market conditions.

Some businesses have continued to experience subdued market conditions over the past year. The Non-Executive Directors do not consider shareholders' interests would be served by losing the services of the superior performers within those businesses because little or no profit share is allocated to those businesses. The Non-Executive Directors have therefore exercised their discretion and increased the quantum of the profit share pool to allow an allocation of profit share to superior performers within those businesses. The outcome is a highly differentiated distribution of profit share across and within businesses. The ability of the Non-Executive Directors to exercise discretion is an integral part of the remuneration framework as it contributes to the achievement of the right balance between retaining the high performers and shareholder interests. In the past, such discretion has been exercised both down and up. Over time, the net aggregate impact on net profit of the exercise of these discretions has been nominal. Notwithstanding these exceptions, Macquarie remains committed to its approach of pay for performance.

For Executive KMP, to demonstrate the link between pay and performance, it is most appropriate to analyse present pay and future pay. Present pay and future pay is prepared on a different basis to that required by Australian Accounting Standards and the *Corporations Act 2001 (Cth)*. However, it is valuable because it allows shareholders to see how the remuneration awarded for the year is aligned with the current year's performance. This analysis shows the Managing Director and CEO's present pay and future pay, as well as that for Comparable KMP⁽³⁾. This shows that for the Managing Director and CEO for the past year, present pay and future pay has not increased to the same extent as NPAT, basic EPS, dividends and TSR. Refer to Appendix 2 for more detail. This is also the case for Comparable KMP reflecting the way performance takes a range of factors into consideration.

Comparison of performance measures and executive remuneration measures: FY2012 – 2013

		2013	2012	Increase/(Decrease)%
Performance measures				
NPAT	\$Am	851	730	17
Basic EPS	Cents per share	251.2	210.1	20
Dividends	Cents per share	200.0	140.0	43
Annual TSR	Per cent	34.4	(16.0)	
Executive remuneration measures				
Total Compensation Expense	\$Am	3,072	3,335	(8)
Compensation Expense to Income ratio	Per cent	45.9	47.9	
Average staff headcount		13,743	15,014	(8)
Actual staff headcount		13,663	14,202	(4)
Present pay – CEO ⁽¹⁾	\$Am	3.08	2.85	8
Future pay – CEO ⁽²⁾	\$Am	7.51	6.67	13
Statutory remuneration - CEO	\$Am	8.8	7.8	13
Present pay – Comparable KMP ⁽³⁾	\$Am	22.6	22.8	(1)
Future pay – Comparable KMP	\$Am	31.5	29.5	7
Statutory remuneration – Comparable KMP	\$Am	48.6	43.8	11

⁽¹⁾ Present pay is defined as the non-deferred element of remuneration awarded in respect of the financial year, recognising that some portion of present pay may in fact be paid in the subsequent financial year. This comprises current year fixed remuneration (including superannuation); and the non-deferred component of the current year profit share allocation (30 per cent for the CEO).

⁽²⁾ Future pay is defined as remuneration awarded in respect of the financial year, which is deferred for payment in future years. For the CEO this represents the deferred unvested component of the current year profit share allocation (70 per cent) which is allocated into a combination of Macquarie equity and Macquarie-fund equity (see sections 1.3.1 – 1.3.3); and PSUs allocated in respect of the current year. PSUs vest after years three and four and are exercisable subject to the achievement of performance hurdles (see section 1.3.6).

⁽³⁾ Comparable KMP are Executive KMP who were members of the Executive Committee for the full year in both FY2013 and FY2012.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

Performance over past ten years FY2004–2013

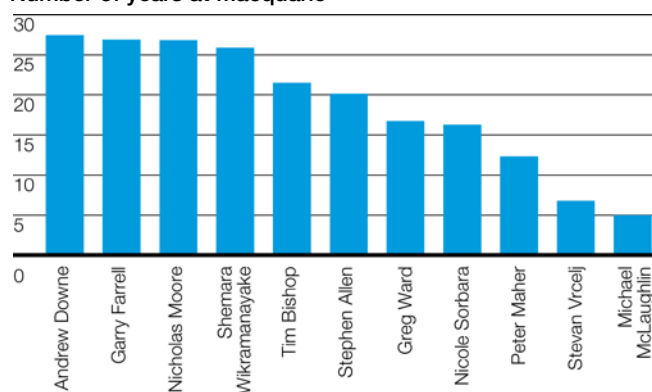
Years ended 31 March	FY13	FY12	FY11	FY10	FY09	FY08	FY07	FY06	FY05	FY04
Income statement										
NPAT attributable to ordinary owners (\$A million)	851	730	956	1,050	871	1,803	1,463	916	812	494
Basic earnings per share (cents per share)	251.2	210.1	282.5	320.2	309.6	670.6	591.6	400.3	369.6	233.0
ROE										
Return on average ordinary shareholders' funds (% pa)	7.8	6.8	8.8	10.1	9.9	23.7	28.1	26.0	29.8	22.3
Total shareholder returns (TSR)										
Dividend – Interim and Final (cents per share)	200	140	186	186	185	345	315	215	161	122
Dividend – Special (cents per share)	–	–	–	–	–	–	–	–	40	–
Share price at 31 Mar (\$A)	37.2	29.1	36.6	47.3	27.1	52.8	82.8	64.7	48.0	35.8
Annual TSR (%)	34.4	(16.0)	(19.0)	79.6	(44.1)	(33.6)	32.6	40.2	39.0	52.8
10 Year TSR (%)	141									

Staff retention has improved, especially at Director level

Voluntary turnover has decreased from the prior year. Director-level voluntary turnover decreased from approximately 11.5 per cent in FY2012 to around 6.5 per cent in FY2013. The Board's view is that, currently, Macquarie is attracting and retaining the people it needs to meet its business goals, although competitive pressures vary by areas of business.

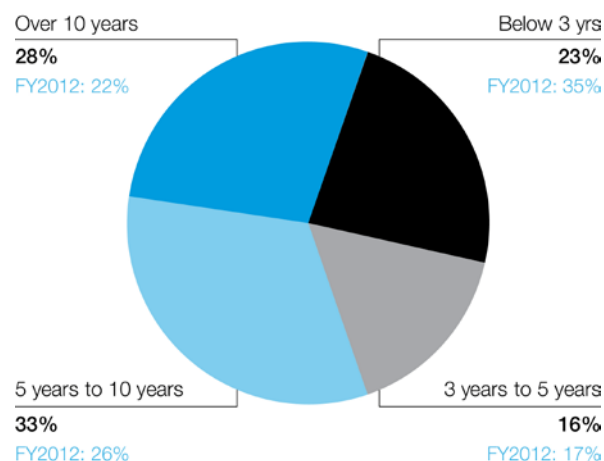
Macquarie continues to have a highly experienced senior management team. The average tenure⁽¹⁾ of Macquarie's Executive Committee is approximately 19 years.

Tenure of Executive Committee members Number of years at Macquarie



This depth of experience continues outside of the Executive Committee. As at 31 March 2013, 28 per cent of Director-level staff⁽²⁾ have ten years' experience or more with Macquarie, and a further 33 per cent have between five and ten years' experience with Macquarie.

Directors' tenure as at 31 March 2013



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

⁽²⁾ Directors include all Director-level staff, being Associate Directors, Division Directors and Executive Directors. As at 31 March 2013, there were a total of 3,208 Director-level staff, of whom 353 were Executive Directors.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

3 Macquarie has performed creditably relative to peers

Macquarie's performance relative to its peer group is creditable on a variety of measures.

The same international investment banking peer group as last year has been used throughout the Remuneration Report. Applicable peers are set out below under each piece of analysis. The BRC considers these firms to be appropriate peers on the basis that they broadly operate in the same markets and compete for the same people as Macquarie. Nonetheless, comparisons are complicated for the following reasons:

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

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

Macquarie's increase in NPAT is above the majority of peers

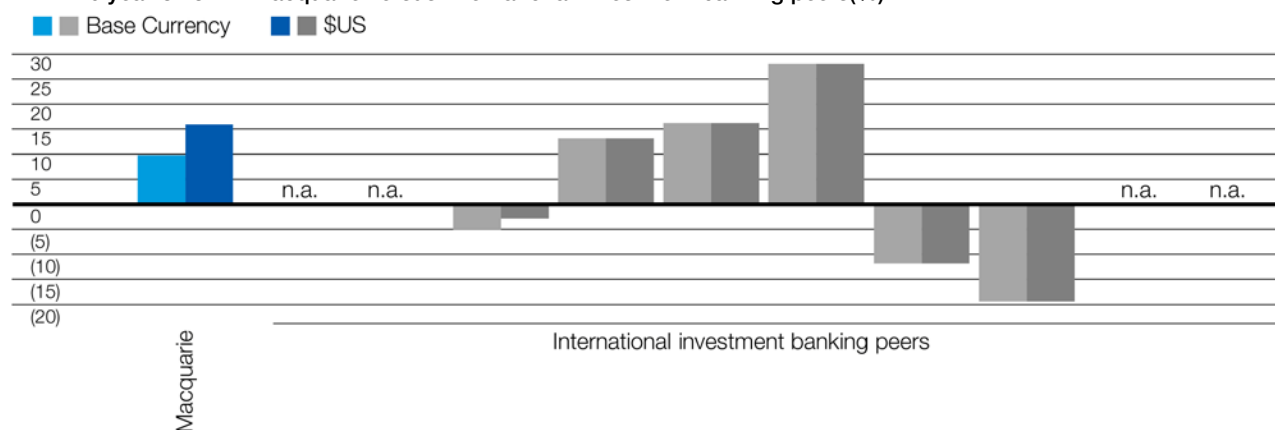
Macquarie's performance against peers is strong when NPAT growth is used as a benchmark. Using base currency (before currency adjustments) Macquarie's change in NPAT is above the majority of international peers for the past year and above the average over a 10 year period. Macquarie has also performed in the top quartile when the performance for all peers is measured in US dollars.

Peer relative growth in NPAT: FY2003-2013⁽¹⁾

	1 year CAGR Base Currency %	10 year CAGR Base Currency %	1 year CAGR \$US %	10 year CAGR' \$US %
Macquarie	17%	10%	17%	16%
Peer	n.a.	n.a.	n.a.	n.a.
Peer	(31%)	n.a.	(29%)	n.a.
Peer	(94%)	(5%)	(94%)	(3%)
Peer	191%	13%	191%	13%
Peer	(1%)	16%	(1%)	16%
Peer	13%	28%	13%	28%
Peer	(52%)	(12%)	(52%)	(12%)
Peer	n.a.	(19%)	n.a.	(19%)
Peer	n.a.	n.a.	n.a.	n.a.
Peer	n.a.	n.a.	n.a.	n.a.

Source: Peer underlying data from Annual Reports

NPAT 10 year CAGR⁽¹⁾ Macquarie versus international investment banking peers(%)



⁽¹⁾ Peers comprise Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Merrill Lynch (Bank of America subsidiary), Morgan Stanley and UBS. A 'n.a.' is noted where the peer recorded a loss 10 years ago, in the prior year or in the current year. In contrast, Macquarie has not incurred a loss in any year.

ROE has improved compared to the prior year and is creditable relative to peers

Macquarie's current 7.8 per cent annual ROE has improved compared to the prior year (6.8 per cent), and is above the peer average. In addition, Macquarie's 10 year average annual ROE is higher than all of its peers, despite holding relatively higher levels of excess capital, and exhibited a lower level of volatility over the same period. Nonetheless, the current ROE is low relative to Macquarie's historical standards, with the need to focus on improvement being recognised.

Peer ROE over 10 years FY2004–2013⁽¹⁾

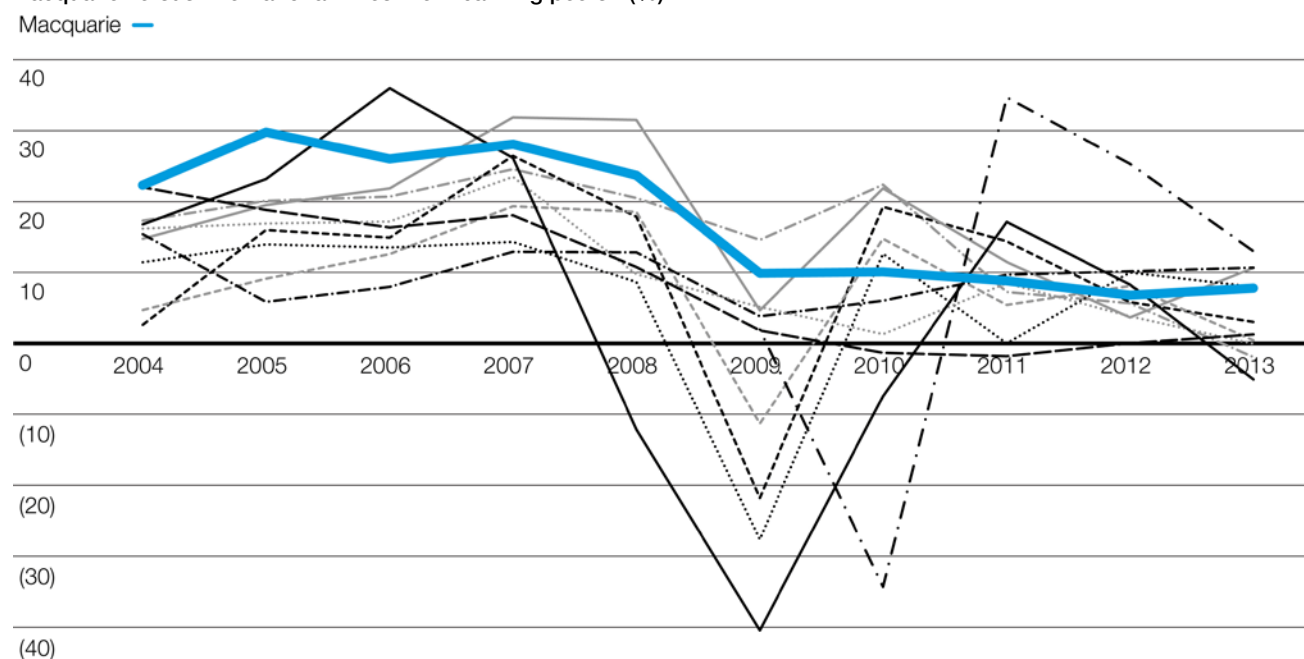
Macquarie versus international investment banking peers

	1 year average %	3 year average %	5 year average %	10 year average %
Macquarie	7.8	7.8	8.7	17.3
Average of Peers	4.0	7.9	3.7	10.0
Peer	1.3	(0.1)	0.0	8.6
Peer	(1.9)	3.7	9.6	15.1
Peer	3.0	7.8	4.1	9.9
Peer	0.4	4.6	3.5	8.2
Peer	10.7	8.6	10.5	17.2
Peer	8.0	9.0	0.7	7.2
Peer	10.7	10.2	8.1	9.6
Peer	13.0	24.4	6.4	n.a.
Peer	0.0	4.1	3.7	10.2
Peer	(5.1)	6.8	(9.7)	4.2

Source: Peer underlying data from Bloomberg and Annual Reports

10 year chart of annual ROE

Macquarie versus international investment banking peers⁽¹⁾(%)



Source: Peer underlying data from Bloomberg and Annual Reports

⁽¹⁾ Peers comprise Bank of America, Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Morgan Stanley and UBS. Peer ROE is included where this information is publicly available.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

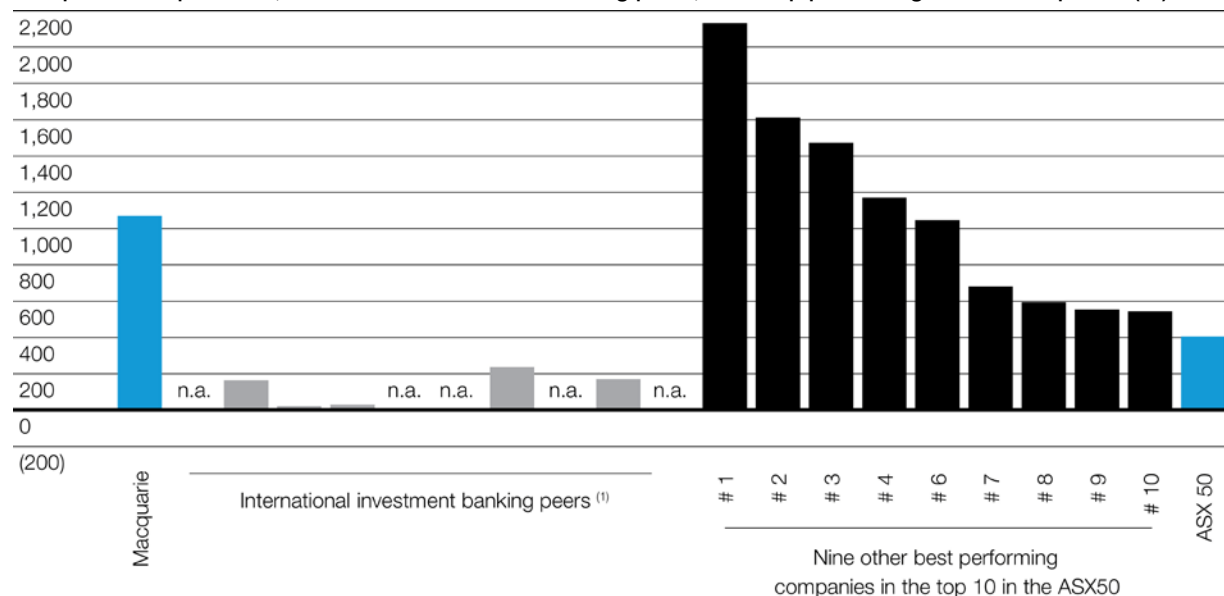
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TSR compares favourably to peers

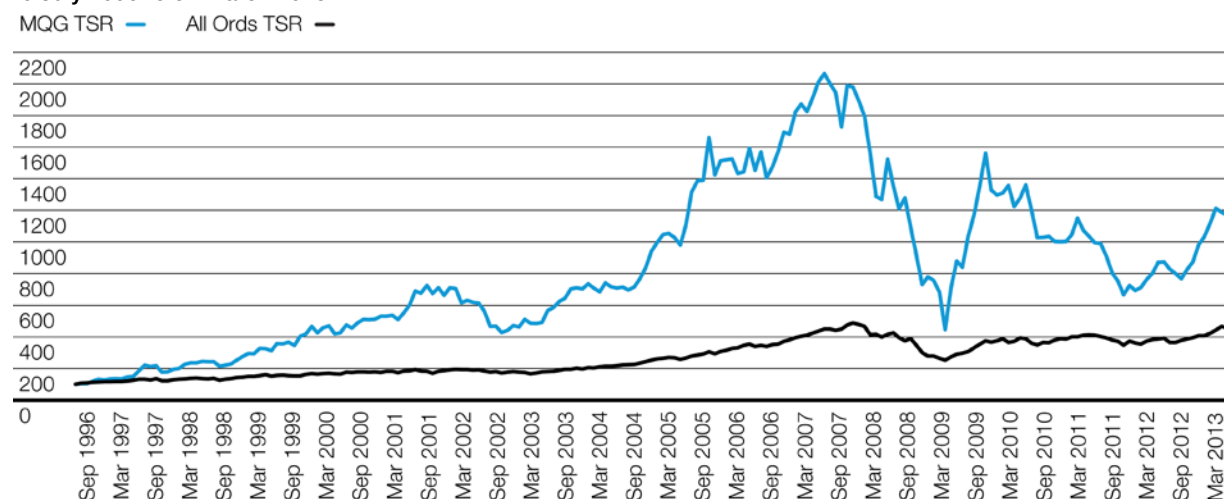
Macquarie's shareholder returns over the long term have been reasonably strong relative to most benchmarks. Macquarie's TSR since listing is currently ranked fifth of all companies that were in the ASX Top 50 at the time that Macquarie Bank Limited (MBL) listed in July 1996, and is significantly higher 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 (All Ords) since listing.

TSR since listing (July 1996)

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



Macquarie TSR versus the All Ordinaries Accumulation Index 29 July 1996 to 31 March 2013



Note: Indexed to 100 on 29 July 1996

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

(1) Peers comprise Bank of America, 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, ie Goldman Sachs, Jefferies and Lazard.

Compensation expense to income ratio compares favourably 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 as a broad measure of comparative remuneration levels. It is not, however, the basis on which Macquarie's profit share pool is created.

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

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

In addition, the compensation ratio is affected by the denominator, being revenue, as well as by the level of compensation expense. For example, where revenue falls disproportionately to overall compensation, the compensation ratio increases.

Notwithstanding these factors, Macquarie's ratio of 45.9 per cent is in the lower range of peers.

Compensation ratio: FY2011–2013⁽¹⁾(%)

2012/2013 ■ 2011/2012 ■ 2010/2011 ■



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

⁽¹⁾ Peers comprise Barclays Capital, Credit Suisse (Investment Banking segment), Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase (Corporate and Investment Banking segment), Lazard, Merrill Lynch, Morgan Stanley and UBS (Investment Banking segment). In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some peers.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

4 Strong remuneration governance has been exercised

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

4.1 Strong Board oversight exists to ensure sound overall remuneration governance

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

The BRC currently comprises five Independent Non-Executive Directors:

	BRC Role	Other Macquarie Committees
Helen Nugent	BRC Chairman	Board Risk Committee member, Board Nominating Committee member
Diane Grady	BRC Member	Board Risk Committee member
Kevin McCann	BRC Member	Macquarie Chairman, Board Risk Committee member, Board Nominating Committee Chairman
John Niland	BRC Member	Board Risk Committee member, Board Governance and Compliance Committee Chairman
Peter Warne	BRC Member	Board Risk Committee Chairman, Board Audit Committee member, Board Nominating Committee member

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

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

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

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

In all cases, this information helps the BRC and Board make decisions in relation to remuneration.

In addition, as part of the remuneration process:

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

The Board approves (on BRC recommendation)	BRC approves (on behalf of the Board)
Executive Remuneration Policy and Framework Recommendations	
<ul style="list-style-type: none"> – The Remuneration Policy, its effectiveness and its compliance with legal and regulatory requirements – The appropriate levels of delegated responsibility to management for remuneration-related decisions – The profit share methodology and any adjustments 	<ul style="list-style-type: none"> – Identification of the Designated Executive Director population, the Code Staff population, Hong Kong Covered Staff⁽²⁾, other persons whose activities may affect the financial soundness of Macquarie and senior risk and financial control staff – The profit share pool, calculated in accordance with the Board-approved methodology – The percentage of Executive Directors' retained profit share allocated to Macquarie shares and Macquarie-managed fund equity – The specific notional portfolio allocations of retained profit share amounts for individual Executive Directors – The implementation of the Remuneration Policy, including an annual review of compliance with the Executive Director minimum shareholding requirements
Executive Remuneration Recommendations	
<ul style="list-style-type: none"> – Individual remuneration recommendations⁽¹⁾ for: <ul style="list-style-type: none"> – Executive Committee members – Designated Executive Directors – Staff covered under specific regulatory requirements – Senior risk and financial control staff – The total PSU pool available for Executive Committee members – The continued vesting or otherwise of retained profit share amounts for employees covered under the Malus provisions 	<ul style="list-style-type: none"> – All individual profit share recommendations for other Executive Directors – Individual fixed remuneration recommendations for Executive Directors above certain agreed thresholds – The standard number of promotion equity grants to Director-level staff
Non-Executive Director Remuneration	
<ul style="list-style-type: none"> – The remuneration framework for the Non-Executive Directors of Macquarie and MBL – Remuneration recommendations for Non-Executive Director fees (subject to the maximum aggregate amount being approved by shareholders)⁽³⁾ 	

⁽¹⁾ Including base remuneration, profit share and PSUs where applicable, with the proviso that PSU grants to Executive Voting Directors (including the Managing Director) must be approved by shareholders at the Annual General Meeting.

⁽²⁾ Covered Staff under the Hong Kong Monetary Authority's (HKMA) Guideline on a Sound Remuneration System.

⁽³⁾ The *Corporations Act 2001 (Cth)* (the Act) contains an exception to the general prohibition on voting on a matter in which a Director has a material personal interest in respect of a director's remuneration as a director.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

4.2 An independent remuneration review has been undertaken

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

The BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of executive remuneration from a USA office of Pay Governance (the Pay Governance Review). The only services that Pay Governance provides to Macquarie are executive compensation consulting to the BRC. This year, the Pay Governance Review considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The cost of the Pay Governance Review was approximately \$US157,000.

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

- the agreement for services was executed by the Chairman of the BRC under delegated authority on behalf of Macquarie
- the Pay Governance Review was provided by Pay Governance directly to the BRC
- Pay Governance attended one BRC meeting to present their findings
- Pay Governance held meetings with the BRC Chairman
- the only communication was through the BRC Chairman, and
- in relation to the Pay Governance Review, no senior executives had separate, direct contact with Pay Governance.

Pay Governance's findings were that:

- Macquarie has used essentially the same remuneration system since Macquarie's founding, which has incrementally evolved by adopting many emerging best practices in response to the changing market and regulatory environment
- the objectives on which Macquarie's remuneration system are built are similar to those cited by other leading global investment banks, including the need to drive shareholder returns over the short and longer term, align the interests of staff and shareholders, the importance of attracting and retaining the right talent, and structuring and delivering remuneration to not encourage excessive risks
- Macquarie's remuneration system has a paramount goal to encourage management to drive shareholder returns over the short and longer-term, whilst factoring in risk
- Macquarie's remuneration components support its remuneration objectives and principles and are very much in line with practices at peer global investment banks, including that:
 - for senior executives, fixed remuneration is modest (although meaningful) relative to total compensation, the bulk of which is delivered through variable means (annual and long-term incentives)
 - the annual profit share is based on profit and return on equity, which are recognised by most peers as necessary to drive performance and therefore returns to shareholders, and takes risk management into account
 - individual profit share awards to executives are highly differentiated to take into account individual contribution and results
 - a significant portion of profit share is invested in both Macquarie equity and notionally in Macquarie-managed funds and withheld for several years
 - executives must maintain a meaningful equity stake in Macquarie
 - equity-based compensation (in the form of Macquarie shares and PSUs for Executive Committee) is used as a long-term incentive for executives
 - Macquarie imposes a long vesting period on the portion of profit share deferred
 - Macquarie's total compensation as a percentage of revenue is in the lower half of its global banking peers.

5 Non-Executive Directors continue to be recognised for their role

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

5.1 Non-Executive Director remuneration policy

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

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

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

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

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.

5.2 Board and Committee fees

Non-Executive Directors are remunerated via Board and Committee fees which are reviewed annually. Per diem fees may also be paid from time to time for approved additional work. An internal review of Non-Executive Directors' remuneration was completed in early 2013 to ensure that it was in line with market rates for relevant Australian financial organisations and consistent with market trends. The BRC and the Board evaluated the analyses and the conclusions reached. Following this review, it was determined that Board and Committee fees should remain unchanged.

Macquarie and Macquarie Bank Fees

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

⁽¹⁾ The Chairman attends Committee meetings but is not paid separate Committee fees.

⁽²⁾ Macquarie Group Limited has five standing Board committees. The Macquarie Board Audit Committee is a joint committee of Macquarie Group Limited and Macquarie Bank and the BRC also supports both Boards.

⁽³⁾ No separate fee is paid for this role as it is filled by the Chairman.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

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 37 of the Directors' Report.

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

5.3 Minimum shareholding requirement for Non-Executive Directors

To 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 that they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they then maintain a holding of 6,000 Macquarie ordinary shares. Under Macquarie's *Trading Policy*, Non-Executive Directors are prohibited from hedging shares held to meet this minimum Macquarie shareholding requirement. Each Non-Executive Director's current holding of Macquarie ordinary shares is included on page 79 of the Directors' Report.

Appendices: Key Management Personnel (KMP) disclosures

Appendix 1: KMP

KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of Macquarie and its controlled entities (together making Executive KMP) and Non-Executive Directors. Macquarie's Non-Executive Directors are required by the *Corporations Act 2001 (Cth)* to be included as KMP for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider themselves part of 'management'. The table reflects KMP movements during the 2013 and 2012 financial years. The key changes included:

Non-Executive Directors:

- M.J. Coleman appointed to the Board on 9 November 2012
- D.J. Grady appointed to the Board on 19 May 2011

Executives:

- N. Sorbara appointed to the Executive Committee on 1 January 2013
- M. McLaughlin appointed to the Executive Committee on 1 January 2012
- R.S. Laidlaw retired from the Executive Committee on 31 December 2011
- W.R. Sheppard retired from the Executive Committee on 20 December 2011
- M. Carapiet retired from the Executive Committee on 11 July 2011

Name	Position	Term as KMP 2013	Term as KMP 2012
Executive Voting Director:			
N.W. Moore ⁽¹⁾	Managing Director and Chief Executive Officer	Full year	Full year
Non-Executive Directors:			
M.J. Coleman	Non-Executive Director	Partial year	–
D.J. Grady AM	Non-Executive Director	Full year	Partial year
M.J. Hawker AM	Non-Executive Director	Full year	Full year
P.M. Kirby	Non-Executive Director	Full year	Full year
C.B. Livingstone AO	Non-Executive Director	Full year	Full year
H.K. McCann, AM	Non-Executive Chairman	Full year	Full year
J.R. Niland AC	Non-Executive Director	Full year	Full year
H.M. Nugent AO	Non-Executive Director	Full year	Full year
P.H. Warne	Non-Executive Director	Full year	Full year
Executives:			
S.D. Allen ⁽¹⁾	Chief Risk Officer	Full year	Full year
T.C. Bishop ⁽¹⁾	Group Head, Macquarie Capital	Full year	Full year
M. Carapiet	Former Executive Chairman, Macquarie Capital and Macquarie Securities Group	–	Partial year
A.J. Downe ⁽¹⁾	Group Head, Fixed Income, Currencies and Commodities Group	Full year	Full year
G.A. Farrell ⁽¹⁾	Group Head, Corporate and Asset Finance Group	Full year	Full year
R.S. Laidlaw	Former Group Head and Executive Chairman, Macquarie Securities Group and Macquarie Capital	–	Partial year
P.J. Maher ⁽¹⁾	Group Head, Banking and Financial Services Group	Full year	Full year
M. McLaughlin ⁽¹⁾	Country Head, United States of America	Full year	Partial year
W.R. Sheppard	Former Deputy Managing Director	–	Partial year
N. Sorbara ⁽¹⁾	Chief Operating Officer	Partial year	–
S. Vrcelj ⁽¹⁾	Group Head, Macquarie Securities Group	Full year	Full year
G.C. Ward ⁽¹⁾	Deputy Managing Director	Full year	Full year
S. Wikramanayake ⁽¹⁾	Group Head, Macquarie Funds Group	Full year	Full year

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

⁽¹⁾ Members of Macquarie's Executive Committee as at 3 May 2013.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

Appendix 2: Supplementary remuneration disclosures⁽¹⁾

For the Managing Director and CEO, three additional disclosures have been prepared in line with the Corporations and Markets Advisory Committee's (CAMAC) indicative guidelines. These tables are prepared on a different basis than those required by Australian Accounting Standards and the *Corporations Act 2001 (Cth)*, as disclosed in Appendix 3. **These tables are not additive.**

1. Past Pay

Past pay is defined as remuneration that was granted in prior years but which is realised or has vested in the current year. **There is no link between past pay and remuneration awarded in respect of the current year.** For the Managing Director and CEO, this represents retained profit share that was awarded over the years 2000-2009.

	Year	Post-2009 DPS Plan \$A	MEREP \$A	PSUs \$A	Options	Total past pay \$A	Change %
N.W. Moore	2013	1,004,787	1,704,682	–	–	2,709,469	19.7
	2012	551,019	1,614,692	98,535	–	2,264,246	

2. Present Pay

Present pay is defined as the non-deferred element of remuneration awarded in respect of the financial year, recognising that some portion of present pay may in fact be paid in the subsequent financial year. This comprises:

- current year fixed remuneration (including superannuation)
- the non-deferred component of the current year profit share allocation (30 per cent for the Managing Director and CEO).

	Year	Base Salary ⁽²⁾ \$A	Profit share \$A	Total present pay \$A	Change %
N.W. Moore	2013	805,343	2,273,804	3,079,147	8.0
	2012	805,458	2,046,811	2,852,269	

3. Future Pay

Future pay is defined as remuneration awarded in respect of the financial year, which is deferred for payment in future years. This represents:

- the deferred unvested component of the current year profit share allocation (70 per cent for the Managing Director and CEO) which is allocated into a combination of Macquarie equity (MEREP) and Macquarie-fund equity (Post-2009 DPS Plan) (see sections 1.3.1 – 1.3.3 for details); and
- PSUs allocated in the current year. PSUs vest after years three and four and are exercisable subject to the achievement of performance hurdles (see sections 1.3.6 for details).

	Year	Post-2009 DPS Plan \$A	MEREP \$A	PSUs \$A	Total future pay \$A	Change %
N.W. Moore	2013	1,061,108	4,248,459	2,200,000	7,509,567	12.6
	2012	955,179	3,823,613	1,890,000	6,668,792	

⁽¹⁾ These tables are based on awarded remuneration and for present and future pay, do not include earnings on retained profit share notionally invested in the Post-2009 DPS Plan, or dividends on unvested MEREP awards.

⁽²⁾ Base salary amounts do not include an accrual for long service leave (which is included in the Statutory Remuneration disclosure in Appendix 3). The base salary amount for 2013 differs from 2012 due to a change in the workers compensation on-cost rate during the year.

Appendix 3: Statutory remuneration disclosures

Executive remuneration

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

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2013 and 31 March 2012, only include remuneration relating to the portion of the relevant periods that each individual was an Executive KMP. Hence, comparable executive remuneration is confined to those who were Executive KMP for the full year.

While awards under the MEREP 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 2013 (and for PSUs, also incorporates an interest rate to maturity of 3.52 per cent; expected vesting dates of 1 July 2016 and 1 July 2017; and a dividend yield of 4.99 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each MEREP award when granted, and will use this valuation for recognising the expense over the remaining vesting period.

As explained in section 1.3.3 above, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors and are included in the relevant remuneration disclosures below as part of Long-Term Employee Benefits (refer to the 'Earnings on prior year restricted profit share' column in the tables on pages 70 and 71. When these amounts are negative, they are deducted from Long-Term Employee Benefits remuneration in the same column.

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

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

				Short-Term Employee Benefits	
			Salary (including superannuation) \$A	Performance related remuneration ⁽¹⁾ \$A	Total short-term employee benefits \$A
Executive Directors					
N. W. Moore	Managing Director and Chief	2013	819,347	2,273,804	3,093,151
	Executive Officer	2012	819,353	2,046,811	2,866,164
Other Executives					
S.D. Allen	Chief Risk Officer	2013	771,150	1,563,240	2,334,390
		2012	771,156	1,468,777	2,239,933
T.C. Bishop	Group Head, Macquarie Capital	2013	722,953	994,789	1,717,742
		2012	705,944	426,419	1,132,363
A.J. Downe	Group Head, Fixed Income, Currencies and Commodities Group	2013	739,178	2,933,599	3,672,777
		2012	722,958	3,032,313	3,755,271
G.A. Farrell	Group Head, Corporate and Asset Finance Group	2013	722,953	2,368,546	3,091,499
		2012	722,958	2,795,414	3,518,372
P.J. Maher	Group Head, Banking and Financial Services Group	2013	722,953	757,935	1,480,888
		2012	722,958	1,516,157	2,239,115
S. Vrcelj	Group Head, Macquarie Securities Group	2013	708,436	–	708,436
		2012	722,958	–	722,958
G.C. Ward	Deputy Managing Director	2013	771,150	1,800,095	2,571,245
		2012	771,156	1,658,296	2,429,452
S. Wikramanayake	Group Head, Macquarie Funds Group	2013	722,953	3,315,964	4,038,917
		2012	722,958	3,316,592	4,039,550
Total Remuneration – Comparable Executive KMP		2013	6,701,073	16,007,972	22,709,045
		2012	6,682,399	16,260,779	22,943,178
New Executives					
M. McLaughlin ⁽⁷⁾	Country Head, United States of America	2013	544,278	2,630,081	3,174,359
		2012	104,885	116,459	221,344
N. Sorbara ⁽⁸⁾	Chief Operating Officer	2013	171,277	174,074	345,351
		2012	–	–	–
Former Executives					
M. Carapiet ⁽⁹⁾	Former Executive Chairman, Macquarie Capital and Macquarie Securities Group	2013	–	–	–
		2012	195,031	–	195,031
R.S. Laidlaw ⁽⁹⁾	Former Group Head and Executive Chairman, Macquarie Securities Group and Macquarie Capital	2013	–	–	–
		2012	541,499	–	541,499
W.R. Sheppard ⁽⁹⁾	Former Deputy Managing Director	2013	–	–	–
		2012	524,217	710,698	1,234,915
Total Remuneration – Executive KMP (including new and former members)		2013	7,416,628	18,812,127	26,228,755
		2012	8,048,031	17,087,936	25,135,967

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

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⁾ \$A	Options ⁽⁶⁾ \$A	Total share-based payments \$A	Total remuneration \$A	
1,061,108	752,951	1,814,059	3,666,510	248,621	–	3,915,131	8,822,341	2.82
955,179	409,034	1,364,213	3,349,480	780,548	(570,839)	3,559,189	7,789,566	2.69
312,648	211,001	523,649	1,097,000	361,743	(184,638)	1,274,105	4,132,144	4.29
293,755	107,327	401,082	858,199	460,475	99,867	1,418,541	4,059,556	13.80
232,117	764,610	996,727	2,033,337	476,377	(551,506)	1,958,208	4,672,677	(1.61)
(2,790,542)	48,519	(2,742,023)	1,854,807	482,657	270,928	2,608,392	998,732	75.45
293,360	1,493,885	1,787,245	2,679,394	(126,461)	–	2,552,933	8,012,955	(1.58)
303,231	838,300	1,141,531	2,379,454	387,426	(398,237)	2,368,643	7,265,445	(0.15)
236,855	426,511	663,366	1,541,156	934,450	(236,358)	2,239,248	5,994,113	11.65
279,541	411,564	691,105	1,221,236	843,180	116,446	2,180,862	6,390,339	15.02
75,793	89,403	165,196	1,087,043	(68,965)	–	1,018,078	2,664,162	(2.59)
151,616	43,788	195,404	1,047,153	353,649	(117,214)	1,283,588	3,718,107	6.36
–	59,808	59,808	773,235	304,494	(220,604)	857,125	1,625,369	5.16
–	36,185	36,185	836,336	264,887	99,114	1,200,337	1,959,480	18.58
360,019	204,640	564,659	1,326,065	167,264	–	1,493,329	4,629,233	3.61
331,659	104,567	436,226	1,185,240	281,280	(125,221)	1,341,299	4,206,977	3.71
1,657,982	579,012	2,236,994	1,007,129	788,884	–	1,796,013	8,071,924	9.77
1,658,296	200,703	1,858,999	750,886	815,477	(99,945)	1,466,418	7,364,967	9.72
4,229,882	4,581,821	8,811,703	15,210,869	3,086,407	(1,193,106)	17,104,170	48,624,918	
1,182,735	2,199,987	3,382,722	13,482,791	4,669,579	(725,101)	17,427,269	43,753,169	
1,315,041	139,175	1,454,216	1,985,692	178,874	2,429	2,166,995	6,795,570	2.67
11,646	59,100	70,746	451,983	17,648	5,760	475,391	767,481	3.05
34,815	1,038	35,853	83,695	67,704	–	151,399	532,603	12.71
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
1,802,495	498,584	2,301,079	3,558,528	260,738	(432,583)	3,386,683	5,882,793	(2.92)
–	–	–	–	–	–	–	–	–
–	66,177	66,177	5,777,621	2,051,060	(306,713)	7,521,968	8,129,644	21.46
–	–	–	–	–	–	–	–	–
710,698	14,141	724,839	2,164,837	917,020	(111,792)	2,970,065	4,929,819	16.33
5,579,738	4,722,034	10,301,772	17,280,256	3,332,985	(1,190,677)	19,422,564	55,953,091	
3,707,574	2,837,989	6,545,563	25,435,760	7,916,045	(1,570,429)	31,781,376	63,462,906	

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

Notes to the statutory remuneration disclosures

- (1) The cash portion of each individual's profit share allocation for the reporting period when they were an Executive KMP.
- (2) The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS plan). For 2012 this amount also includes an adjustment for a reallocation of prior year's profit share from restricted profit share to share based payments.
- (3) The earnings on restricted profit share as described in section 1.3.3.
- (4) The current year amortisation for retained profit share calculated as described in Note 1(xxi) to the Financial Statements.
- (5) The current year amortisation for PSUs calculated as described in Note 1(xxi) to the financial statements. Adjustments were made during the current and prior year to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.
- (6) The current year amortisation for options as described in Note 1(xxi) to the financial statements. During the current and prior year, previously recognised options expense was reversed due to performance hurdles not being met or not expected to be met.

Notes on individuals

Disclosed remuneration reflects their time as KMP

- (7) Mr McLaughlin was appointed to the Executive Committee on 1 January 2012.
- (8) Mrs Sorbara was appointed to the Executive Committee on 1 January 2013.
- (9) Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee on 11 July 2011, 20 December 2011 and 31 December 2011 respectively. During the prior year the BRC exercised discretion to accelerate the vesting of retained profit share in the form of RSUs for Mr Carapiet, Mr Sheppard and Mr Laidlaw due to their retirement. The BRC waived the employment condition attached to the PSUs. However these only become exercisable if the performance hurdles are met as at the vesting date. All outstanding amortisation was recognised as remuneration during 2012 for the impacted individuals.

Non-Executive Director Remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 5 of the Remuneration Report.

		Directors Fees \$A	Other Benefits ⁽¹⁾ \$A	Total Compensation \$A
M.J. Coleman ⁽²⁾	2013	114,389	–	114,389
	2012	–	–	–
D.J. Grady ⁽³⁾	2013	290,000	–	290,000
	2012	245,753	–	245,753
M.J. Hawker ⁽⁴⁾	2013	312,917	10,000	322,917
	2012	285,000	40,000	325,000
P.M. Kirby	2013	315,000	–	315,000
	2012	315,000	–	315,000
C.B. Livingstone	2013	363,000	–	363,000
	2012	363,000	–	363,000
H.K. McCann	2013	825,000	–	825,000
	2012	825,000	–	825,000
J.R. Niland ⁽⁵⁾	2013	347,500	–	347,500
	2012	342,083	–	342,083
H.M. Nugent	2013	338,000	21,600	359,600
	2012	338,000	22,500	360,500
P.H. Warne ⁽⁶⁾	2013	369,417	–	369,417
	2012	385,000	–	385,000
Total Remuneration – Non-Executive KMP	2013	3,275,223	31,600	3,306,823
	2012	3,098,836	62,500	3,161,336

(1) Other benefits for Non-Executive Directors include a travel allowance of \$A10,000 for Mr Hawker who was a resident of the UK until 30 June 2012 (2012: \$A40,000); BRC related per diem fees for Dr Nugent of \$A21,600 for approved additional work (2012: \$A22,500).

(2) Mr Coleman was appointed to the MGL and MBL Boards, the Board Audit Committee and the Board Risk Committee on 9 November 2012.

(3) Ms Grady was appointed to the MGL and MBL Boards and the Board Risk Committee on 19 May 2011 and the Board Remuneration Committee on 1 August 2011.

(4) Mr Hawker was appointed to the Board Audit Committee on 1 June 2011 and appointed to the Board Governance and Compliance Committee on 1 May 2012.

(5) Dr Niland was appointed Chair of the Board Governance and Compliance Committee on 1 June 2011.

(6) Mr Warne was appointed to the Board Nominating Committee and resigned from the Board Governance and Compliance Committee on 1 May 2012.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

Appendix 4: Share and option disclosures

MEREP RSU Awards to KMP

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

A significant portion of an Executive KMP's retained profit share is invested in Macquarie equity, delivered as RSUs. There have been no alterations to the terms or conditions of the above grants since the grant date. RSU awards are subject to forfeiture as set out in sections 1.3.4 - 1.3.5. The value of the grants at vesting could vary significantly as they are dependent on the Macquarie Group Limited share price at the time of vesting. Retention rates, the vesting profile and service and performance criteria for the current year are set out in section 1.3. RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. For example, RSUs granted in August 2012 relate to the Managing Director and CEO's performance in the 2012 financial year.

Name and position	RSU awards granted	Grant date	Number vested during the year ⁽¹⁾	% Forfeited during the year
Executive Voting Directors				
N.W. Moore	141,772	15-Aug-12	–	–
	152,602	15-Aug-11	–	–
	105,362	13-Aug-10	–	–
	466,460	3-Mar-10	69,864	–
Executives				
S.D. Allen ⁽²⁾	43,600	7-Jun-12	–	–
	40,158	20-Jun-11	–	–
	14,182	15-Feb-11	–	–
	26,122	30-Jun-10	6,460	–
	113,565	3-Mar-10	10,936	–
T.C. Bishop ⁽³⁾⁽⁴⁾	33,228	7-Jun-12	–	–
	62,369	20-Jun-11	–	–
	5,769	15-Apr-11	–	–
A.J. Downe	101,266	7-Jun-12	–	–
	87,129	20-Jun-11	–	–
	97,961	30-Jun-10	–	–
	80,877	3-Mar-10	16,175	–
G.A. Farrell ⁽³⁾	93,354	7-Jun-12	–	–
	60,668	20-Jun-11	–	–
P.J. Maher	50,633	7-Jun-12	–	–
	46,469	20-Jun-11	–	–
	36,245	30-Jun-10	–	–
	88,468	3-Mar-10	13,760	–
M. McLaughlin ⁽⁵⁾	15,795	7-Jun-12	–	–
S. Vrcelj ⁽³⁾	56,021	20-Jun-11	–	–
G.C. Ward	49,226	7-Jun-12	–	–
	45,895	20-Jun-11	–	–
	38,313	30-Jun-10	–	–
	92,688	3-Mar-10	15,295	–
S. Wikramanayake ⁽⁶⁾	61,533	7-Jun-12	–	–
	37,290	20-Jun-11	–	–
	13,605	30-Jun-10	4,683	–
	69,028	3-Mar-10	5,727	–

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- (1) The number of RSUs that vested during the year includes the impact of the transitional remuneration arrangements that were put in place in 2009 when shareholders approved the establishment of the MEREP.
 - (2) At 31 March 2013, due to a change in employment jurisdiction, 76,051 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.
 - (3) Mr Bishop, Mr Farrell and Mr Vrceļj were appointed to the Executive Committee on 2 July 2010. RSUs vested during the current financial year in respect of grants made prior to their joining the Executive Committee.
 - (4) At 31 March 2013, due to a change in employment jurisdiction, 65,261 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.
 - (5) Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. RSUs vested during the current financial year in respect of grants made prior to his joining the Executive Committee.
 - (6) At 31 March 2013, due to a change in employment jurisdiction, 46,331 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.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

MEREP PSU Awards to KMP

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

PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. For example, PSUs granted in August 2012 relate to the Executive KMP's performance in the 2012 financial year. As noted in section 1.3.6.1, no PSUs became exercisable during the year.

Name and position	Granted to date			Forfeited/Lapsed during the financial year ⁽²⁾		
	Number	Date	Value A\$(¹)	Number	%	Value A\$(³)
Executive Voting Directors						
N.W. Moore	120,667	15-Aug-12	2,643,814	–	–	–
	159,981	15-Aug-11	3,342,003	–	–	–
	108,225	13-Aug-10	3,747,832	36,075	33%	937,950
	38,300	3-Mar-10	1,621,622	12,766	33%	331,916
Executives						
S.D. Allen	52,353	15-Aug-12	1,147,054	–	–	–
	59,173	15-Aug-11	1,236,124	–	–	–
	29,906	13-Aug-10	1,035,645	9,968	33%	259,168
T.C. Bishop	26,814	15-Aug-12	587,495	–	–	–
	71,317	15-Aug-11	1,489,812	–	–	–
A.J. Downe	107,259	15-Aug-12	2,350,045	–	–	–
	113,721	15-Aug-11	2,375,632	–	–	–
	99,567	13-Aug-10	3,448,005	33,189	33%	862,914
	53,500	3-Mar-10	2,265,190	17,833	33%	463,658
G.A. Farrell	98,321	15-Aug-12	2,154,213	–	–	–
	79,027	15-Aug-11	1,650,874	–	–	–
P.J. Maher	53,629	15-Aug-12	1,175,011	–	–	–
	60,587	15-Aug-11	1,265,662	–	–	–
	36,796	13-Aug-10	1,274,245	12,265	33%	318,890
	13,000	3-Mar-10	550,420	4,333	33%	112,658
M. McLaughlin	15,961	15-Aug-12	349,706	–	–	–
S. Vrcelj	52,170	15-Aug-11	1,089,831	–	–	–
G.C. Ward	58,737	15-Aug-12	1,286,928	–	–	–
	67,462	15-Aug-11	1,409,281	–	–	–
	44,011	13-Aug-10	1,524,101	14,670	33%	381,420
	26,700	3-Mar-10	1,130,478	8,900	33%	231,400
S. Wikramanayake	116,836	15-Aug-12	2,559,877	–	–	–
	87,379	15-Aug-11	1,825,347	–	–	–
	24,927	13-Aug-10	863,222	8,309	33%	216,034
	11,500	3-Mar-10	486,910	3,833	33%	99,658

⁽¹⁾ Based on the fair value at grant date

⁽²⁾ Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2012 were not achieved and therefore those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.

⁽³⁾ Based on closing share price at 30 June 2012, being the day the PSUs were forfeited.

Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to KMP. The fair value of such grants is being amortised and disclosed as part of each KMP's remuneration on a straight-line basis over the vesting period. The 2012 PSU allocation has been determined based on a valuation of a PSU at 15 August 2012. The fair value of \$21.91 at this date has been estimated using a discounted cash flow method.

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

- interest rate to maturity: 3.70 per cent
- expected vest date: 1 July 2015 and 1 July 2016
- dividend yield: 4.76 per cent per annum

PSUs have a nil exercise price. PSUs vest on a pro-rata basis as set out in section 1.3.6. For the 2012 grant, the first tranche will vest on 1 July 2015. The PSUs expire on 5 August 2019.

Option holdings of KMP and their related parties⁽¹⁾

The following table sets out details of options held during the year for the KMP including their related parties. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. There were no options issued to KMP during the financial years ended 31 March 2013 and 31 March 2012.

For the year ended 31 March 2013

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

⁽¹⁾ A related party of Mr M.J. Coleman holds vested options. Mr M.J. Coleman does not influence any investment decision over, nor does he receive any benefit from, this holding.

⁽²⁾ Options outstanding exclude options that are not exercisable due to performance hurdles not being met.

⁽³⁾ Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2012 were not achieved and therefore the options did not become exercisable. The related expense previously recognised on these option grants was reversed during the year ended 31 March 2012 and 31 March 2013. The value of those options that failed to become exercisable on 1 July 2012 was \$nil.

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

⁽⁵⁾ Includes options that were granted as part of remuneration in prior financial year.

⁽⁶⁾ Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. The opening balance on 1 April 2012 represents holdings at the date of appointment.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2013

continued

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

There were no options exercised by KMP during the years ending 31 March 2013 and 31 March 2012.

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

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

- financial information for Macquarie relating to the years ended 31 March 2006 through to 31 March 2013 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
- financial information for Macquarie relating to the year ended 31 March 2005 has been restated to comply with revised Australian Accounting Standards, with the exception of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005
- 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.

This is the end of the Remuneration Report.

Directors' Report

for the financial year ended 31 March 2013

continued

Voting Directors' equity participation

At 3 May 2013, 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 3 May 2013	Share options held at 3 May 2013 ⁽¹⁾	RSUs held in the MEREP ⁽²⁾	PSUs held in the MEREP ⁽²⁾
N.W. Moore	1,436,317	–	679,198	365,566
M.J. Coleman	6,000	–	–	–
D. J. Grady	3,253	–	–	–
M.J. Hawker	4,500	–	–	–
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 33 – 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 33 – Employee equity participation.

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

The relevant interests of Voting Directors as at 3 May 2013 in managed investment schemes made available by subsidiaries of Macquarie and other contracts that confer a right to call for or deliver shares in Macquarie are listed on page 81.

Directors' Report

for the financial year ended 31 March 2013

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).

In addition, Macquarie made an Indemnity and Insurance Deed Poll on 12 September 2007 (Deed Poll). The benefit of the undertakings made by Macquarie under the Deed Poll have been given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of Macquarie, its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of Macquarie or a wholly-owned subsidiary of Macquarie. The Deed Poll provides for the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed described above. However, the Deed Poll does not provide for access to company documents.

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

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

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 33 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 in note 33, are under option as at the date of this report.

Directors' relevant interests

The relevant interests of Directors on 3 May 2013 in managed investment schemes made available by subsidiaries of Macquarie Group and other disclosable relevant interests are listed in the table below:

Name and position	Direct interests	Indirect interests
Executive Voting Director		
N.W.Moore	2006 Macquarie ReFlexion Trusts units	5,000,000
	2004 Macquarie Timber Land Trust units	50
	2006 Macquarie Timber Land Trust units	75
	Macquarie Global Infrastructure Fund III (B) units	1,637,618
Independent Voting Directors		
M.J. Coleman		–
D. J. Grady		–
M.J. Hawker		– Macquarie Convertible Preference Securities
		Macquarie Wrap Cash Account (MWCA) units
P.M. Kirby		–
C.B. Livingstone		–
H.K. McCann		–
J.R. Niland		–
H.M. Nugent		–
P.H. Warne		–

Directors' Report

for the financial year ended 31 March 2013

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.

Lead auditor

Prior to the end of the financial year, in accordance with the *Corporations Act 2001(Cth)*, the Board granted approval to extend the term of the lead auditor, Mr D. Armstrong. The extension is for one year to include the audit of the 2014 financial year and PricewaterhouseCoopers (PwC) has agreed to the extension. The BAC recommended the extension to the Board given recent changes to Macquarie's operations, that necessitated substantial changes to the planning and execution of the 2013 external audit. These operational initiatives are ongoing and are expected to impact the 2014 audit. Following the 2013 audit, it is also expected that there will be changes to the membership of the BAC. The Board approval to extend the term of the lead auditor is consistent with maintaining the quality of the audit provided to the Group and would not give rise to a conflict of interest situation (as defined in section 324CD of the Act).

Non-audit services

Details of the amounts paid or payable to the auditor of the Consolidated Entity, PwC, and its related practices for non-audit services provided during the year is disclosed in Note 41 - Audit and other services provided by PwC.

The Consolidated Entity's *Auditor Independence 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 auditor must be approved in advance by the Board Audit Committee (BAC) or the BAC Chairman, as appropriate.

The BAC has reviewed a summary of non-audit services provided during the year by PwC and its related practices and has confirmed that the provision of non-audit services did not compromise the auditor independence requirements of the Act. This has been formally advised to the Board of Directors by the BAC. For these reasons, the Voting Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices is compatible with the general standard of independence for auditors imposed by the Act.

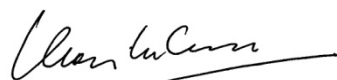
Auditor's independence declaration

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

Rounding of amounts

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

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



H Kevin McCann AM
Independent Director and Chairman



Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
3 May 2013

Directors' Report Schedule 1

for the financial year ended 31 March 2013

Directors' experience and special responsibilities

H Kevin McCann AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 72)

Independent Chairman since March 2011
Chairman – Board Nominating Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

Kevin McCann joined the Board of Macquarie Group as an Independent Voting Director in August 2007. Mr McCann was appointed as an Independent Voting Director of Macquarie Bank in December 1996 and continues to hold this position. He was appointed Chairman of the Macquarie Group and Macquarie Bank Boards in March 2011.

Experience

Mr McCann was a Partner (from 1970 to 2004) and Chairman of Allens 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 and Healthscope Limited.

Other listed company directorships (held at any time in the last three years)

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

Other directorships/appointments

- Chairman, National Library of Australia Foundation
- Member, Evans and Partners Advisory Board
- Fellow, University of Sydney Senate
- Member of the Investment and Commercialisation Committee, Nominations and Appointments Committee and Finance and Audit Committee, University of Sydney Senate
- Director, the United States Studies Centre at the University of Sydney
- Member, Advisory Board, University of Sydney Business School
- Council Member, European Australian Business Council
- Member, Board on Diversity, Allens and Linklaters
- Member, Corporate Governance Committee, Australian Institute of Company Directors

Mr McCann is a resident of New South Wales.

Nicholas W Moore, BCom LLB (UNSW), FCA (age 54)

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

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

Experience

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

Other directorships/appointments

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

Mr Moore is a resident of New South Wales.

Michael J Coleman, MComm (UNSW), FCA, FCPA, FAICD (age 62)

Member – Board Risk Committee
Member – Board Audit Committee

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

Experience

Michael Coleman was a senior partner with KPMG for 30 years. He was KPMG's inaugural National Managing Partner Assurance and Advisory from 1998 to 2002, National Managing Partner for Risk and Regulation from 2002 to 2010 and Regional Leader for Asia Pacific Quality and Risk Management from 2002 to 2011.

Other listed company directorships (held at any time in the last three years)

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

Other directorships/appointments

- Deputy Chairman, Financial Reporting Council
- Member, Audit Committee of the Reserve Bank of Australia
- Chairman, Reporting Committee of the Australian Institute of Company Directors
- Member, Advisory Board of Norton Rose Australia
- Chairman, Planet Ark Environmental Foundation
- Chair, Advisory Board of the Centre for Accounting and Assurance Services Research at UNSW
- Director, Osteoporosis Australia

Mr Coleman is a resident of New South Wales.

Directors' Report Schedule 1

for the financial year ended 31 March 2013

continued

Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD (age 64)

Member – Board Remuneration Committee

Member – Board Risk Committee

Diane Grady joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting Director in May 2011.

Experience

Ms Grady has been a full time independent director of public companies and not-for-profit boards since 1994. She was a Director of Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited, MLC and a Trustee of the Sydney Opera House. She was also President of Chief Executive Women and chaired the group's taskforce which published the CEO Kit for Attracting and Retaining Female Talent.

Ms Grady was a partner at McKinsey & Company where she spent 15 years consulting to clients in a broad range of industries on strategic and operational issues. She was a worldwide leader of the firm's Organisation and Change Management Practice and the first woman outside the United States to be elected to McKinsey's global partnership. In Australia, she headed McKinsey's Consumer Goods, Retailing and Marketing Practice Group. Ms Grady was made a member of the Order of Australia in 2009 for her contribution to business and to the promotion of women leaders. In 2001 she received a Centenary Medal for service to Australian society through business leadership.

Other listed company directorships

(held at any time in the last three years)

- Director, BlueScope Steel Limited (May 2002 to February 2013)
- Director, Woolworths Limited (July 1996 to November 2010)
- Director, Goodman Group (September 2007 to October 2010)

Other directorships/appointments

- Member, McKinsey Advisory Council
- Member, UTS Business School Advisory Board
- Chair, Ascham School
- Chair, Hunger Project Australia
- Member, Centre for Ethical Leadership
- Member, Heads over Heels Advisory Council

Ms Grady is a resident of New South Wales.

Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin (age 53)

Member – Board Audit Committee

Member – Board Governance and Compliance Committee

Member – Board Risk Committee

Michael Hawker joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting Director in March 2010.

Experience

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

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

Other listed company directorships

(held at any time in the last three years)

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

Other directorships/appointments

- Chairman, Australian Rugby Union
- Chairman, the George Institute for Global Health
- Member, General Enterprise Management Services International Limited (GEMS) Advisory Board
- Member, Board of Trustees of the Giant Steps Foundation

Mr Hawker is a resident of New South Wales.

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits), FAICD (age 65)

Member – Board Audit Committee

Member – Board Governance and Compliance Committee

Member – Board Risk Committee

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

Experience

Mr Kirby was 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 coating businesses worldwide, and a member of the Executive Board of ICI PLC, with responsibility for ICI Americas and the western hemisphere.

Other listed company directorships

(held at any time in the last three years)

- Chairman, DuluxGroup Limited (since July 2010)
- Director, Orica Limited (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 57)**

Chairman – Board Audit Committee

Member – Board Governance and Compliance Committee

Member – Board Nominating Committee

Member – Board Risk Committee

Catherine Livingstone joined the Board of Macquarie Group as an Independent Voting Director in August 2007. She was appointed as an Independent Voting Director of Macquarie Bank in November 2003 and continues to hold this position.

Experience

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 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 was previously Chairman of CSIRO and a Director of Goodman Fielder and Rural Press Limited, as well as President of Chief Executive Women.

Other listed company directorships

(held at any time in the last three years)

- Director (since November 2000) and Chairman (since May 2009), Telstra Corporation Limited
- Director, WorleyParsons Limited (since July 2007)

Other directorships/appointments

- President, Australian Museum Trust
- Director, Saluda Medical Pty Ltd
- Director, the George Institute for Global Health
- Member, New South Wales Innovation and Productivity Council
- Member, Advisory Board, John Grill Centre for Project Leadership, University of Sydney

Ms Livingstone is a resident of New South Wales.

**John R Niland AC, BCom MCom HonDSc (UNSW),
PhD (Illinois), DUniv (SCU), FAICD (age 72)**

Chairman – Board Governance and Compliance Committee

Member – Board Remuneration Committee

Member – Board Risk Committee

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

Experience

Dr Niland is a Professor Emeritus of the University of NSW (UNSW) and was Vice-Chancellor and President of UNSW from 1992 to 2002. Prior to that he was Dean of the Faculty of Commerce and Economics. 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).

Other directorships/appointments

- Chairman of the Singapore Management University's International Academic Review Panel (since July 2012)

Dr Niland is a resident of New South Wales.

**Helen M Nugent AO, BA (Hons)(Qld), PhD (Qld),
MBA (Harv), HonDBus (Qld) (age 64)**

Chairman – Board Remuneration Committee

Member – Board Nominating Committee

Member – Board Risk Committee

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

Experience

Dr Nugent has been involved in the financial services as Director of Strategy at Westpac Banking Corporation, Chairman of Swiss Re (Australia) Limited and a Non-Executive Director of the State Bank of New South Wales and Mercantile Mutual. In addition, Dr Nugent was previously Chairman of Hudson (Australia and New Zealand) and a Director of UniTAB, Carter Holt Harvey, Australia Post and Freehills. She has also been a Partner at McKinsey and Company.

Dr Nugent has been actively involved in the arts and education. She was formerly the 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 she was previously a member of the Bradley Review into Higher Education and Professor in Management and Director of the MBA Program at the Australian Graduate School of Management.

Other listed company directorships

(held at any time in the last three years)

- Director, Origin Energy Limited (since March 2003)

Other directorships/appointments

- Chairman, Funds SA
- President, Cranbrook School
- Chancellor, Bond University
- Chairman, National Portrait Gallery
- Member, Investment Advisory Committee, Australian Olympic Foundation

Dr Nugent is a resident of New South Wales.

Directors' Report Schedule 1

for the financial year ended 31 March 2013

continued

Peter H Warne, BA (Macquarie), FAICD (age 57)

Chairman – Board Risk Committee

Member – Board Audit Committee

Member – Board Nominating Committee

Member – Board Remuneration Committee

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

Experience

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

He is a former Director of Next Financial Limited and Macquarie Capital Alliance Group and a former Chairman and Director of TEYS Limited.

Other listed company directorships

(held at any time in the last three years)

- Chairman, ALE Property Group (since September 2003)
- Deputy Chairman, WHK Group Limited (director since May 2007)
- Director, ASX Limited (since July 2006)

Other directorships/appointments

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

Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience

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

Company Secretary since 12 October 2006

Dennis Leong is an Executive Director of Macquarie and Head of the Group's Company Secretarial Division that is responsible for the Group's company secretarial requirements, professional risks and general insurances and employee equity plans. He has over 19 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Paula Walsh, ACIS

Assistant Company Secretary since 29 May 2008

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

Nigel Donnelly, BEc LLB (Hons) (Macquarie)

Assistant Company Secretary since 30 October 2008

Nigel Donnelly is a Division Director of Macquarie and has over 13 years experience as a solicitor. He joined Macquarie in April 2006, and was previously a Senior Associate at Mallesons Stephen Jaques (now King & Wood Mallesons) with a general corporate advisory and corporate governance focus.

Directors' Report Schedule 2

for the financial year ended 31 March 2013



Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2013, 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', with a large, stylized flourish extending from the bottom right.

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
3 May 2013

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

Macquarie Group Limited

2013 Financial Report

Contents

Income statements	89
Statements of comprehensive income.....	90
Statements of financial position	91
Statements of changes in equity	92
Statements of cash flows	94
Notes to the financial statements	96
1 Summary of significant accounting policies.....	96
2 Profit for the financial year	110
3 Segment reporting	113
4 Income tax expense.....	117
5 Dividends and distributions paid or provided for	118
6 Earnings per share.....	119
7 Receivables from financial institutions	121
8 Trading portfolio assets.....	121
9 Investment securities available for sale.....	122
10 Other assets	122
11 Loan assets held at amortised cost	123
12 Impaired financial assets	124
13 Other financial assets at fair value through profit or loss.....	125
14 Life investment contracts and other unitholder investment assets.....	125
15 Property, plant and equipment.....	126
16 Interests in associates and joint ventures accounted for using the equity method.....	129
17 Intangible assets	131
18 Investments in subsidiaries	132
19 Deferred tax assets/(liabilities)	133
20 Trading portfolio liabilities	134
21 Other liabilities.....	134
22 Payables to financial institutions.....	134
23 Other financial liabilities at fair value through profit or loss	134
24 Debt issued at amortised cost	135
25 Provisions	135
26 Capital management strategy	136
27 Loan capital	137
28 Contributed equity	139
29 Reserves, retained earnings and non-controlling interests	142
30 Notes to the statements of cash flows	144
31 Related party information	145
32 Key Management Personnel disclosure	147
33 Employee equity participation	160
34 Contingent liabilities and commitments	167
35 Lease commitments	167
36 Derivative financial instruments	168
37 Financial risk management.....	169
38 Average interest bearing assets and liabilities and related interest.....	189
39 Fair values of financial assets and liabilities	190
40 Transfers of financial assets	197
41 Audit and other services provided by PricewaterhouseCoopers	199
42 Acquisitions and disposals of subsidiaries and businesses	200
43 Events after the reporting period	201
Directors' declaration	202
Independent audit report	203
Ten year history	205

The Financial Report was authorised for issue by the Directors on 3 May 2013.
The Consolidated Entity has the power to amend and reissue the Financial Report.

Income statements

for the financial year ended 31 March 2013

	Notes	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Interest and similar income		4,649	5,368	292	349
Interest expense and similar charges		(3,282)	(4,035)	(366)	(455)
Net interest income/(expense)	2	1,367	1,333	(74)	(106)
Fee and commission income	2	3,422	3,364	–	–
Net trading income	2	1,234	1,035	–	–
Share of net profits of associates and joint ventures accounted for using the equity method	2	92	108	–	–
Other operating income and charges	2	585	1,123	1,262	492
Net operating income		6,700	6,963	1,188	386
Employment expenses	2	(3,273)	(3,560)	(3)	(3)
Brokerage, commission and trading-related expenses	2	(647)	(724)	–	–
Occupancy expenses	2	(390)	(456)	–	–
Non-salary technology expenses	2	(260)	(290)	–	–
Other operating expenses	2	(725)	(884)	(11)	(13)
Total operating expenses		(5,295)	(5,914)	(14)	(16)
Operating profit before income tax		1,405	1,049	1,174	370
Income tax (expense)/benefit	4	(533)	(287)	23	45
Profit after income tax		872	762	1,197	415
Profit attributable to non-controlling interests:					
Macquarie Income Securities	5	(21)	(26)	–	–
Macquarie Income Preferred Securities	5	(4)	(4)	–	–
Other non-controlling interests		4	(2)	–	–
Profit attributable to non-controlling interests		(21)	(32)	–	–
Profit attributable to ordinary equity holders of Macquarie Group Limited		851	730	1,197	415
		Cents per share			
Basic earnings per share	6	251.2	210.1		
Diluted earnings per share	6	246.1	202.3		

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

Statements of comprehensive income

for the financial year ended 31 March 2013

	Notes	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Profit after income tax		872	762	1,197	415
Other comprehensive income/(expense):					
Available for sale investments, net of tax	29	193	(262)	–	–
Cash flow hedges, net of tax	29	(2)	(10)	–	–
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	29	18	(14)	–	–
Exchange differences on translation of foreign operations, net of hedge and tax		(122)	40	–	–
Total other comprehensive income/(expense)		87	(246)	–	–
Total comprehensive income		959	516	1,197	415
Total comprehensive income/(expense) attributable to:					
Ordinary equity holders of Macquarie Group Limited		942	487	1,197	415
Macquarie Income Securities holders		21	26	–	–
Macquarie Income Preferred Securities holders		1	4	–	–
Other non-controlling interests		(5)	(1)	–	–
Total comprehensive income		959	516	1,197	415

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

Statements of financial position

as at 31 March 2013

	Notes	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Assets					
Receivables from financial institutions	7	16,516	18,510	–	–
Trading portfolio assets	8	19,776	12,689	–	–
Derivative assets		14,704	22,078	–	–
Investment securities available for sale	9	17,057	18,266	–	–
Other assets	10	11,187	13,717	156	27
Loan assets held at amortised cost	11	49,083	45,218	–	–
Other financial assets at fair value through profit or loss	13	5,033	6,715	–	–
Life investment contracts and other unitholder investment assets	14	7,240	5,904	–	–
Due from subsidiaries	31	–	–	6,992	7,317
Property, plant and equipment	15	5,643	5,235	–	–
Interests in associates and joint ventures accounted for using the equity method	16	2,048	2,664	–	–
Intangible assets	17	1,221	1,351	–	–
Investments in subsidiaries	18	–	–	12,972	13,525
Deferred tax assets	19	1,270	1,279	297	309
Total assets		150,778	153,626	20,417	21,178
Liabilities					
Trading portfolio liabilities	20	1,497	3,615	–	–
Derivative liabilities		14,853	21,022	–	–
Deposits		41,103	37,169	38	50
Other liabilities	21	12,391	15,096	52	18
Payables to financial institutions	22	18,075	12,629	2,370	3,178
Other financial liabilities at fair value through profit or loss	23	1,704	2,733	–	–
Life investment contracts and other unitholder liabilities		7,218	5,897	–	–
Due to subsidiaries	31	–	–	828	1,072
Debt issued at amortised cost	24	38,014	39,713	4,269	4,459
Provisions	25	213	241	–	5
Deferred tax liabilities	19	542	436	–	–
Total liabilities excluding loan capital		135,610	138,551	7,557	8,782
Loan capital					
Macquarie Convertible Preference Securities		616	614	–	–
Subordinated debt at amortised cost		2,604	2,579	–	–
Subordinated debt at fair value through profit or loss		–	150	–	–
Total loan capital	27	3,220	3,343	–	–
Total liabilities		138,830	141,894	7,557	8,782
Net assets		11,948	11,732	12,860	12,396
Equity					
Contributed equity	28	5,900	6,235	8,642	8,952
Reserves	29	57	44	675	766
Retained earnings	29	5,439	4,924	3,543	2,678
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		11,396	11,203	12,860	12,396
Non-controlling interests	29	552	529	–	–
Total equity		11,948	11,732	12,860	12,396

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of changes in equity

for the financial year ended 31 March 2013

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
							Consolidated
Balance at 1 April 2011		6,513	310	4,581	11,404	528	11,932
Profit after income tax		–	–	730	730	32	762
Other comprehensive expense, net of tax		–	(243)	–	(243)	(3)	(246)
Total comprehensive (expense)/income		–	(243)	730	487	29	516
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	51	–	–	51	–	51
Purchase of shares by MEREP Trust	28	(403)	–	–	(403)	–	(403)
Dividends and distributions paid or provided for	5	–	–	(572)	(572)	–	(572)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	4	4
Distributions paid or provided for		–	–	–	–	(32)	(32)
Other equity movements:							
Net movement on exchangeable shares	28	(3)	–	–	(3)	–	(3)
Share-based payments		79	162	–	241	–	241
Transfer from share-based payments reserve to retained earnings	29	–	(185)	185	–	–	–
Net other movements in treasury shares	28	(2)	–	–	(2)	–	(2)
		(278)	(23)	(387)	(688)	(28)	(716)
Balance at 31 March 2012		6,235	44	4,924	11,203	529	11,732
Profit after income tax		–	–	851	851	21	872
Other comprehensive income/(expense), net of tax		–	91	–	91	(4)	87
Total comprehensive income		–	91	851	942	17	959
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	3	–	–	3	–	3
Purchase of shares by MEREP Trust	28	(242)	–	–	(242)	–	(242)
Dividends and distributions paid or provided for	5	–	–	(509)	(509)	–	(509)
Buyback and cancellation of ordinary shares	28	(251)	–	–	(251)	–	(251)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	27	27
Distributions paid or provided for		–	–	–	–	(21)	(21)
Other equity movements:							
Net movement on exchangeable shares	28	(4)	–	–	(4)	–	(4)
Share-based payments		160	95	–	255	–	255
Transfer from share-based payments reserve to retained earnings	29	–	(173)	173	–	–	–
Net other movements in treasury shares	28	(1)	–	–	(1)	–	(1)
		(335)	(78)	(336)	(749)	6	(743)
Balance at 31 March 2013		5,900	57	5,439	11,396	552	11,948

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
							Company
Balance at 1 April 2011		9,218	604	2,834	12,656	–	12,656
Profit after income tax		–	–	415	415	–	415
Total comprehensive income		–	–	415	415	–	415
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	58	–	–	58	–	58
Purchase of shares by MEREP Trust	28	(403)	–	–	(403)	–	(403)
Dividends and distributions paid or provided for	5	–	–	(571)	(571)	–	(571)
Other equity movements:							
Share-based payments		79	162	–	241	–	241
		(266)	162	(571)	(675)	–	(675)
Balance at 31 March 2012		8,952	766	2,678	12,396	–	12,396
Profit after income tax		–	–	1,197	1,197	–	1,197
Total comprehensive income		–	–	1,197	1,197	–	1,197
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	23	–	–	23	–	23
Purchase of shares by MEREP Trust	28	(242)	–	–	(242)	–	(242)
Dividends and distributions paid or provided for	5	–	–	(505)	(505)	–	(505)
Buyback and cancellation of ordinary shares		(251)	–	–	(251)	–	(251)
Other equity movements:							
Share-based payments		160	82	–	242	–	242
Transfer from share-based payments reserve to retained earnings		–	(173)	173	–	–	–
		(310)	(91)	(332)	(733)	–	(733)
Balance at 31 March 2013		8,642	675	3,543	12,860	–	12,860

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 2013

	Notes	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Cash flows (used in)/from operating activities					
Interest received		4,503	5,370	292	349
Interest and other costs of finance paid		(3,274)	(4,037)	(396)	(493)
Dividends and distributions received		367	547	1,262	492
Fees and other non-interest income received		4,249	3,963	–	–
Fees and commissions paid		(769)	(653)	–	–
Net proceeds from trading portfolio assets and other financial assets/liabilities		738	2,680	–	–
Payments to suppliers		(1,063)	(1,177)	(7)	(10)
Employment expenses paid		(3,034)	(3,535)	(3)	(3)
Income tax paid		(843)	(315)	(83)	(105)
Life investment contract receipts		286	359	–	–
Life investment contract premiums received and other unitholder contributions		3,101	3,287	–	–
Life investment contract payments and other unitholder maturities		(2,718)	(3,282)	–	–
Net loan assets (granted)/repaid		(4,056)	712	337	2,223
Loan facility repaid to a subsidiary		–	–	–	(737)
Recovery of loans previously written off	2	15	22	–	–
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		2,050	471	(953)	(894)
Net cash flows (used in)/from operating activities	30	(448)	4,412	449	822
Cash flows (used in)/from investing activities					
Net proceeds/(payments) for investment securities available for sale		1,160	(284)	–	–
Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated		1,045	484	–	–
Payments for the acquisition of associates and subsidiaries, net of cash acquired		(1,224)	(815)	–	–
Proceeds from the disposal of life investment contracts and other unitholder investment assets		5,781	7,386	–	–
Payments for life investment contracts and other unitholder investment assets		(6,386)	(7,678)	–	–
Proceeds from the disposal of property, plant and equipment, lease assets and intangible assets		173	310	–	–
Payments for the acquisition of property, plant and equipment, lease assets and intangible assets		(553)	(812)	–	–
Injection of capital to a subsidiary		–	–	–	(700)
Return of capital from a subsidiary		–	–	550	800
Net cash flows (used in)/from investing activities		(4)	(1,409)	550	100

	Notes	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Cash flows used in financing activities					
Proceeds from the issue of ordinary shares	28	3	1	3	1
Contributions from/(distributions to) non-controlling interests		32	(3)	–	–
(Repayment of)/proceeds from subordinated debt		(299)	459	–	–
Dividends and distributions paid		(540)	(552)	(509)	(520)
Payments for buyback and cancellation of ordinary shares	28	(251)	–	(251)	–
Payments for acquisition of treasury shares	28	(242)	(403)	(242)	(403)
Net cash flows used in financing activities		(1,297)	(498)	(999)	(922)
Net (decrease)/increase in cash and cash equivalents		(1,749)	2,505	–	–
Cash and cash equivalents at the beginning of the financial year		14,828	12,323	–	–
Cash and cash equivalents at the end of the financial year	30	13,079	14,828	–	–

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 2013

Note 1

Summary of significant accounting policies

(i) Basis of preparation

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

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

Compliance with IFRS as issued by the IASB

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

Historical cost convention

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

Critical accounting estimates and significant judgements

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

- fair value of financial assets and liabilities (note 39);
- impairment of loan assets held at amortised cost, investment securities available for sale and interests in associates and joint ventures (notes 1(xii), 1(xiv), 12 and 37.1);
- acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 1(ii), 1(xiii), 16 and 42);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of Special Purpose Entities (SPEs) (notes 1(ii), 11 and 24);
- determination of whether dividends and distributions received are recognised as income or a return of capital (note 1(vi));
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (notes 1(vii), 4 and 19); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvii) and 17).

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

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

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

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets became effective in the current financial year. AASB 2010-6 adds disclosures about transfers of financial assets that do not achieve accounting derecognition, and those that do achieve derecognition but there is some form of continuing involvement. Comparative information is not required in the first year. Disclosures of transferred financial assets are presented in note 40.

The application of AASB 2010-6 in the current financial year has not affected any of the amounts recognised in the financial statements.

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

AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 127 *Separate Financial Statements* (August 2011), AASB 128 *Investments in Associates and Joint Ventures* (August 2011) and AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*.

A suite of new and amended Standards address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. The Standard introduces a single definition of control that applies to all entities. It focuses on the need to have power, rights or exposure to variable returns and ability to use the power to affect the returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Further variable returns are determined to be created by certain entities and absorbed by others, this is known as the creator absorber guidance. There is also new guidance on participating and protective rights, de-facto control and on agent vs. principal relationships. AASB 2012-10 provides relief from restating prior year comparatives when AASB 10 is applied for the first time. Relief is available when the accounting outcome under the current guidance is the same as applying AASB 10 as at the date of initial application. In all other situations, comparatives are to be restated retrospectively using AASB 10.

AASB 11 introduces a principles-based approach to accounting for joint arrangements. The focus is no longer on the legal structure, but rather on rights and obligations being shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement is classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate is no longer permitted. Parties to a joint operation account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous Standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 12 sets out disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. Whilst the new Standard will not affect any of the amounts recognised in the financial statements, it will require additional disclosures of interests in these entities. AASB 2012-10 provides relief from disclosing comparatives for interests in unconsolidated structured entities when AASB 12 is applied for the first time.

AASB 127 (August 2011) is renamed *Separate Financial Statements* and now deals solely with separate financial statements.

AASB 128 (August 2011) clarifies that an entity continues to apply the equity method for its retained interest where on a change of ownership a joint venture becomes an associate, and vice versa. The amendments also clarify that where a portion of an associate or joint venture is to be sold, that part to be sold is accounted for under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, and the equity method is applied to the retained portion until the portion held for sale is sold.

The Standards are effective for annual reporting periods beginning on or after 1 January 2013. The Consolidated Entity will first apply the Standards in the financial year beginning 1 April 2013.

The effect of applying AASB 10 is expected to result in consolidation of certain entities where client monies are invested and while those investors have the majority of risks and rewards, the Consolidated Entity has significant variable returns from its fee arrangement and has the power to affect these returns through its management activities.

It is also expected to result in no longer consolidating certain other entities where clients monies are invested and the investors absorb substantially all the variable returns of the entity (leaving the Consolidated Entity with insignificant returns). Further, the Consolidated Entity acts as an agent for these investors due to their substantive right to remove the Consolidated Entity from its role as manager. For other entities, the Consolidated Entity has a majority of the risk of loss through its derivatives, the purpose of the derivatives is to create exposure that is absorbed by investors. Consequently, the Consolidated Entity has insignificant variable returns in these entities.

The effect of these changes are expected to result in a decrease in Life investment contracts and other unitholder investment assets of \$6,037 million (2012: \$4,612 million) with a corresponding decrease in Life investment contracts and other unitholder liabilities. Further possible changes are still under consideration by the AASB and could result in an additional decrease in Life investment contracts and other unitholder investment assets of \$1,189 million (2012: \$1,287 million) with a corresponding decrease in Life investment contracts and other unitholder liabilities.

Initial application of AASB 11, AASB 12, AASB 127 (August 2011), AASB 128 (August 2011) and AASB 2012-10 is not expected to result in any material impact.

AASB 13 Fair Value Measurement

AASB 13 explains how to measure fair value and aims to enhance fair value disclosures, and is effective for annual reporting periods beginning on or after 1 January 2013. The Consolidated Entity will first apply the Standard in the financial year beginning 1 April 2013. Initial application is not expected to result in any material impact.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities and AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-2 amends AASB 7 *Financial Instruments: Disclosures* to require disclosure of enforceable master netting arrangements and their effect, even if assets and liabilities may not be set off on the statement of financial position under AASB 132 *Financial Instruments: Presentation*.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 1

Summary of significant accounting policies continued

(i) Basis of preparation continued

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

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

AASB 2012-2 is effective for annual reporting periods beginning on or after 1 January 2013, and AASB 2012-3 is effective for annual reporting periods beginning on or after 1 January 2014. The Consolidated Entity will first apply AASB 2012-2 in the financial year beginning 1 April 2013, and AASB 2012-3 in the financial year beginning 1 April 2014. AASB 2012-2 will not affect any of the amounts recognised in the financial statements, however it may increase disclosures of certain netting arrangements. The Consolidated Entity is continuing to assess the impact of AASB 2012-3.

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

AASB 2011-4 removes the individual Key Management Personnel disclosure requirements from AASB 124 *Related Party Disclosures*, and is effective for annual reporting periods beginning on or after 1 July 2013. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2014. Whilst the amendments may reduce the disclosures provided, it will not affect any of the amounts recognised in the financial statements.

AASB 9 Financial Instruments and consequential amendments

AASB 9 includes the classification, measurement, recognition and derecognition requirements for financial instruments.

A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in other comprehensive income (OCI), but upon realisation, those accumulated changes in value are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement.

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

AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures

Disclosures delays the mandatory effective date of AASB 9 to annual reporting periods beginning on or after 1 January 2015. Comparative information need not be restated however additional transition disclosures will need to be provided.

The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2015. Initial assessments indicate that the following impacts are likely:

- 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;
- financial assets carried at amortised cost (e.g. beneficial interests) will change to be carried at fair value through profit or loss; and
- financial assets 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.

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The IASB issued the amendments in October 2012, which define an investment entity and provide an exception to the consolidation requirements in IFRS 10. Investment entities are required to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. However, where a non-investment entity parent ultimately controls an investment entity, the parent must still consolidate the investment entity and all the underlying subsidiaries, reversing fair value used by the investment entity. The amendments also set out disclosure requirements for investment entities.

The amendments are effective for annual periods beginning on or after 1 January 2014, and are not available for early adoption in Australia because the AASB has not issued Australian equivalents of the amendments. Instead, the AASB issued an exposure draft in December 2012 which proposes to require additional disclosures where an entity does apply the exemption.

(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. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the Company owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

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

The Company and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to govern the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Company are carried in its financial statements at cost less impairment in accordance with AASB 127 *Consolidated and Separate Financial Statements*.

Impairment of subsidiaries

Investments in subsidiaries are reviewed annually for indicators of impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount (which is the higher of fair value less costs to sell and value in use). At each balance date, investments in subsidiaries that have been impaired are reviewed for possible reversal of the impairment.

Securitisations

Securitised positions are held through a number of SPEs. These are generally categorised as Mortgage SPEs and Other SPEs, and include certain managed funds 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(xiii)). The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statement, and the share of its post-acquisition movements in reserves.

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence or jointly control the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 1

Summary of significant accounting policies continued

(iii) Business combinations

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure NCI relating to ordinary shares either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities. The excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration given in business combinations occurring from 1 April 2010, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statement.

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

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

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

(iv) Segment reporting

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

(v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Subsidiaries and other entities

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

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

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

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

(vi) Revenue and expense recognition

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

Net interest income

Interest income is brought to account using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs associated with loans are capitalised and included in the effective interest rate and recognised in the income statement over the expected life of the instrument. Interest income on finance leases is brought to account progressively over the life of the lease consistent with the outstanding investment balance.

Fee and commission income

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

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

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

Net trading income

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

Dividends and distributions

Dividends and distributions are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends from subsidiaries, associates and joint ventures are recognised in the income statement when the Company's right to receive the dividend is established.

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

- whether the payment follows a legal process to reduce either the number of outstanding shares or the amount of share capital;
- whether evidence exists clearly demonstrating that the distribution is a return of capital originally invested by the investor (e.g. the timing of a distribution relative to the acquisition of the investment);
- the substance of the payment, including the existence of non-discretionary evidence, that may identify its nature. A director declaration of the nature is given a low weighting in the analysis;
- whether other transactions occur with the same counterparty at the same time as, or in contemplation of, the payment;
- whether the payment is from profits in proportion to the investors' particular class of capital;
- when a dividend is paid in the form of additional equity of the investee, whether all investors retain the same relative ownership interest in the investee;
- whether the criteria for derecognising part, or all, of an investment in a financial asset under AASB139 *Financial Instruments: Recognition and Measurement* are met, and in particular if substantially all the risks and rewards of ownership have been transferred; and
- the basis for the amendment in May 2008 to the 'cost method' description in AASB 127 *Consolidated and Separate Financial Statements* so as to remove an approach solely relying upon determining post-acquisition retained earnings.

(vii) Income tax

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 1

Summary of significant accounting policies continued

(vii) Income tax continued

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or when a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences will give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled under currently enacted tax law.

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

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

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

Tax consolidation

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

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

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

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

Reverse repurchase transactions, where the Consolidated Entity purchases securities under an agreement to resell, and repurchase transactions, where the Consolidated Entity sells securities under an agreement to repurchase, are also conducted on a collateralised basis. The securities subject to the reverse repurchase and repurchase agreements are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on the reverse repurchase agreement is recorded as a receivable, while cash received from third parties on the repurchase agreement is recorded as a borrowing.

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

The Consolidated Entity continually reviews the fair values of the securities on which the above transactions are based and, where appropriate, requests or provides additional collateral to support the transactions, in accordance with the underlying agreements.

(ix) Trading portfolio assets and liabilities

Trading portfolio assets (long positions) comprise debt and equity securities, bank bills, treasury notes, bullion and commodities purchased with the intent of being actively traded. Trading portfolio liabilities (short positions) comprise obligations to deliver assets across the same trading categories, which the Consolidated Entity has short-sold and are actively traded.

Assets and liabilities included in the trading portfolio are carried at fair value (see note 39). Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets. At the date the transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised profits or losses arising from revaluing that contract to fair value in the income statement. When the Consolidated Entity becomes party to a sale contract of a financial asset, it derecognises the asset and recognises a trade receivable from trade date until settlement date.

(x) Derivative instruments

Derivative instruments entered into by the Consolidated Entity include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity and equity markets. These derivative instruments are principally used for the risk management of existing financial assets and financial liabilities.

All derivatives, including those used for statement of financial position hedging purposes, are recognised on the statement of financial position and are disclosed as an asset where they have a positive fair value at balance date or as a liability where the fair value at balance date is negative.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured to their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models, as appropriate. Movements in the fair values of derivatives are recognised in the income statement in net trading income, unless the derivative meets the requirements for hedge accounting.

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

(xi) Hedge accounting

The Consolidated Entity designates certain derivatives or financial instruments as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the Consolidated Entity documents the hedge relationship

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in note 36. Movements in the cash flow hedging reserve in equity are shown in note 29.

(xii) Investments and other financial assets

With the exception of trading portfolio assets and derivatives, which are classified separately in the statement of financial position, the remaining investments in financial assets are classified into the following categories: loans and receivables, other financial assets at fair value through profit or loss and investment securities available for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except for other financial assets at fair value through profit or loss, is re-evaluated at each balance date.

Loans and receivables

This category includes loan assets held at amortised cost and amounts due from subsidiaries, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other financial assets at fair value through profit or loss

This category includes only those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 1

Summary of significant accounting policies continued

(xii) Investments and other financial assets continued

The policy of management is to designate a financial asset as such if: the asset contains embedded derivatives which must otherwise be separated and carried at fair value; it is part of a group of financial assets managed and evaluated on a fair value basis; or doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

Investment securities available for sale

Investment securities available for sale comprise securities that are not actively traded and are intended to be held for an indefinite period. Such securities are available for sale and may be sold should the need arise, including purposes of liquidity, or due to the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices.

If the relevant market is not considered active (or the securities are unlisted), fair value is established by valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Interest income on debt securities available for sale is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

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

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

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

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

(xiv) Impairment

Loan assets held at amortised cost

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

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

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

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

Investment securities available for sale

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

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

In the case of debt securities classified as available for sale, observable data that relates to loss events are considered, including adverse changes in the payment status of the issuer and national or local economic conditions that correlate with defaults on those assets.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

When the fair value of an available for sale financial asset is less than its initial carrying amount and there is objective evidence that the asset is impaired, the cumulative loss recognised directly in OCI is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement for equity securities classified as available for sale are not subsequently reversed through the income statement. However impairment losses recognised for debt investment securities classified as available for sale are subsequently reversed through the income statement if the fair value increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

Interests in associates and joint ventures

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that its interests in associates and joint ventures are impaired. The entire carrying amount of each investment in associate and joint venture is considered in the assessment. The main indicators of impairment are as for equity securities classified as available for sale, disclosed above.

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

(xv) Life insurance business

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

Disclosure

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

Investment assets

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

Restriction on assets

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

Policy liabilities

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

(xvi) Property, plant and equipment

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 1

Summary of significant accounting policies continued

(xvi) Property, plant and equipment continued

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

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

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

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

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

(xvii) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

Licences and trading rights are carried at cost less accumulated impairment losses. These assets are not amortised because they are considered to have an indefinite useful life.

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

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

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

Software

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

Impairment

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

(xviii) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

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

(xix) Provisions

Employee benefits

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

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

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

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

Dividends

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

(xx) Earnings per share

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

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

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

(xxi) Performance based remuneration

Share-based payments

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

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

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

Restricted Share Units (RSUs)/Deferred Share Units (DSUs) and PSUs relating to the MEREP plan for Executive Committee members, have been granted in the current year in respect of 2012. The fair value of each of these grants is estimated using the Company's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 3.70 per cent;
- expected vest dates of PSU: 1 July 2015 and 1 July 2016; and
- dividend yield: 4.76 per cent per annum.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 1

Summary of significant accounting policies continued

(xxi) Performance based remuneration continued

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 2013 (and for PSUs, also incorporates an interest rate to maturity of 3.52 per cent; expected vest dates of PSU: 1 July 2016 and 1 July 2017; and a dividend yield of 4.99 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

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

Profit share remuneration

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

(xxii) Cash and cash equivalents

Cash and cash equivalents comprise:

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

(xxiii) Leases

- Where finance leases are granted to third parties, the present value of the lease receipts is recognised as a receivable and included in loan assets held at amortised cost. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.
- Leases entered into by the Consolidated Entity as lessee are primarily operating leases. The total fixed payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.
- Purchased assets, where the Consolidated Entity is the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 2 to 50 years. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment.

(xxiv) Offsetting financial instruments

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

(xxv) Loan capital

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

(xxvi) Contributed equity

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

(xxvii) Changes in ownership interests

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

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in associate or joint venture (such that it becomes a financial asset), retained ownership interests are revalued to their current fair value and any gain or loss is immediately recognised in the income statement.

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

(xxviii) Comparatives

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

(xxix) Rounding of amounts

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Note 2				
Profit for the financial year				
Net interest income				
Interest and similar income received/receivable	4,649	5,368	292	349
Interest expense and similar charges paid/payable	(3,282)	(4,035)	(366)	(455)
Net interest income/(expense)	1,367	1,333	(74)	(106)
Fee and commission income				
Base fees	1,019	938	–	–
Performance fees	164	130	–	–
Mergers and acquisitions, advisory and underwriting fees	659	682	–	–
Brokerage and commissions	811	910	–	–
Other fee and commission income	691	633	–	–
Income from life investment contracts and other unitholder investment assets (note 14)	78	71	–	–
Total fee and commission income	3,422	3,364	–	–
Net trading income ⁽¹⁾				
Equities	181	218	–	–
Commodities	699	556	–	–
Foreign exchange products	225	285	–	–
Interest rate products	129	(24)	–	–
Net trading income	1,234	1,035	–	–
Share of net profits of associates and joint ventures accounted for using the equity method	92	108	–	–

⁽¹⁾ Included in net trading income are fair value gains of \$142 million (2012: \$367 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which principally offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met – refer to note 1(xi) – Summary of significant accounting policies.

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 2

Profit for the financial year continued

Other operating income and charges

Net gains on sale of investment securities available for sale	114	131	–	–
Impairment charge on investment securities available for sale	(232)	(82)	–	–
Net gains on sale of associates and joint ventures (note 31)	208	108	–	–
Impairment charge on associates and joint ventures ⁽¹⁾	(156)	(128)	–	–
Gain on change of ownership interest ⁽²⁾	121	66	–	–
Gain on sale of non-financial assets	–	104	–	–
Impairment charge on non-financial assets	(43)	(56)	–	–
Net operating lease income ⁽³⁾	417	390	–	–
Dividends/distributions received/receivable:			–	–
Investment securities available for sale	142	443	–	–
Subsidiaries	–	–	1,262	492
Collective allowance for credit losses provided for during the financial year (note 11)	(3)	(13)	–	–
Individually assessed provisions:				
Loan assets provided for during the financial year (note 11)	(104)	(103)	–	–
Other receivables provided for during the financial year	(13)	(35)	–	–
Recovery of loans previously provided for (note 11)	12	30	–	–
Loans written off	(96)	(80)	–	–
Recovery of loans previously written off	15	22	–	–
Other income	203	326	–	–
Total other operating income and charges	585	1,123	1,262	492
Net operating income	6,700	6,963	1,188	386

⁽¹⁾ Includes impairment reversals of \$46 million (2012: \$37 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⁾ Includes rental income of \$724 million (2012: \$649 million) less depreciation of \$307 million (2012: \$259 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 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Note 2				
Profit for the financial year continued				
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	(2,806)	(3,035)	(3)	(3)
Share-based payments	(273)	(274)	–	–
Reversal/(provision) for annual leave	6	(23)	–	–
Reversal/(provision) for long service leave	1	(3)	–	–
Total compensation expense	(3,072)	(3,335)	(3)	(3)
Other employment expenses including on-costs, staff procurement and staff training	(201)	(225)	–	–
Total employment expenses	(3,273)	(3,560)	(3)	(3)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	(511)	(579)	–	–
Other fee and commission expenses	(136)	(145)	–	–
Total brokerage, commission and trading-related expenses	(647)	(724)	–	–
Occupancy expenses				
Operating lease rentals	(226)	(274)	–	–
Depreciation: buildings, furniture, fittings and leasehold improvements (note 15)	(93)	(114)	–	–
Other occupancy expenses	(71)	(68)	–	–
Total occupancy expenses	(390)	(456)	–	–
Non-salary technology expenses				
Information services	(132)	(138)	–	–
Depreciation: equipment (note 15)	(32)	(49)	–	–
Other non-salary technology expenses	(96)	(103)	–	–
Total non-salary technology expenses	(260)	(290)	–	–
Other operating expenses				
Professional fees	(252)	(251)	–	–
Auditor's remuneration (note 41)	(24)	(23)	–	–
Travel and entertainment expenses	(134)	(157)	–	–
Advertising and promotional expenses	(60)	(66)	–	–
Communication expenses	(31)	(41)	–	–
Depreciation: equipment (note 15)	–	(5)	–	–
Amortisation of intangibles (note 17)	(62)	(86)	–	–
Other expenses	(162)	(255)	(11)	(13)
Total other operating expenses	(725)	(884)	(11)	(13)
Total operating expenses	(5,295)	(5,914)	(14)	(16)

Note 3

Segment reporting

(i) Operating segments

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into six operating groups and a corporate group. These segments have been set up based on the different core products and services offered.

Since 31 March 2012 there have been a number of business and asset transfers between Operating Groups and the Corporate segment. These transfers were undertaken to better align the relevant assets with the expertise in each operating group. As part of this realignment, the Real Estate Banking Division is now reported as part of the Corporate segment. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

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

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

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

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

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

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

Corporate is not considered an operating group and includes Group Treasury, head office and central support functions. The Corporate segment also holds certain investments not aligned with any of the Operating Groups. Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense.

Inter segmental transactions are determined on an arm's length basis and eliminate on consolidation.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Macquarie Funds Group \$m	Corporate and Asset Finance \$m	Banking and Financial Services Group \$m
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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:

Net interest and trading income/(expense)	–	579	733
Fee and commission income/(expense)	1,442	37	645
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	36	(3)	3
Other operating income and charges	20	431	(7)
Internal management revenue/(charge)	16	8	9
Net operating income	1,514	1,052	1,383
Total operating expenses	(760)	(358)	(1,048)
Profit/(loss) before tax	754	694	335
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	1	–	–
Net profit/(loss) attributable to ordinary equity holders	755	694	335
Reportable segment assets	15,174	23,405	26,073
Net interest and trading income/(expense)	110	586	703
Fee and commission income	1,253	33	689
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(13)	5	–
Other operating income and charges	38	427	(22)
Internal management revenue/(charge)	21	26	1
Net operating income	1,409	1,077	1,371
Total operating expenses	(767)	(376)	(1,096)
Profit/(loss) before tax	642	701	275
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	3	(3)	–
Net profit/(loss) attributable to ordinary equity holders	645	698	275
Reportable segment assets	12,759	21,768	26,965

Macquarie Securities Group \$m	Macquarie Capital \$m	Fixed Income, Currencies and Commodities \$m	Corporate \$m	Total \$m
Consolidated 2013				
133	(49)	1,164	41	2,601
591	542	173	(8)	3,422
–	13	28	15	92
22	104	(79)	94	585
6	10	17	(66)	–
752	620	1,303	76	6,700
(802)	(474)	(740)	(1,113)	(5,295)
(50)	146	563	(1,037)	1,405
–	–	–	(533)	(533)
–	4	–	(26)	(21)
(50)	150	563	(1,596)	851
20,640	2,841	43,413	19,232	150,778
Consolidated 2012				
227	(121)	883	(20)	2,368
665	573	148	3	3,364
–	80	19	17	108
(1)	109	298	274	1,123
2	17	16	(83)	–
893	658	1,364	191	6,963
(1,087)	(573)	(825)	(1,190)	(5,914)
(194)	85	539	(999)	1,049
–	–	–	(287)	(287)
–	–	–	(32)	(32)
(194)	85	539	(1,318)	730
22,442	3,530	42,092	24,070	153,626

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 3

Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management \$m	Financial Markets \$m	Capital Markets \$m	Lending \$m	Total \$m
Consolidated 2013					
Revenues from external customers	2,828	3,324	1,593	3,790	11,535
Consolidated 2012					
Revenues from external customers	2,420	3,658	1,735	4,057	11,870

(iii) Geographical areas

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

	Revenues from external customers \$m	Non-current assets ⁽¹⁾ \$m
Consolidated 2013		
Australia	5,378	1,417
Americas	3,254	2,551
Europe, Middle East and Africa	2,026	4,829
Asia Pacific	877	360
Total	11,535	9,157
Consolidated 2012		
Australia	6,083	1,822
Americas	3,033	3,015
Europe, Middle East and Africa	2,088	4,294
Asia Pacific	666	479
Total	11,870	9,610

⁽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 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 4

Income tax expense

(i) Income tax (expense)/benefit

Current tax (expense)/benefit	(255)	(14)	(4)	57
Deferred tax (expense)/benefit	(278)	(273)	27	(12)
Total	(533)	(287)	23	45

Deferred tax (expense)/benefit included in income tax (expense)/benefit comprises:

Increase/(decrease) in deferred tax assets	140	(14)	27	(12)
(Increase)/decrease in deferred tax liabilities	(418)	(259)	–	–
Total	(278)	(273)	27	(12)

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

Prima facie income tax expense on operating profit ⁽¹⁾	(422)	(315)	(352)	(111)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	(77)	86	2	2
Distribution provided on Macquarie Income Preferred Securities and related distributions	1	1	–	–
Share-based payments expense	8	(19)	–	–
Intra-group dividend	–	–	379	148
Other items	(43)	(40)	(6)	6
Total income tax (expense)/benefit	(533)	(287)	23	45

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

Available for sale reserve	(99)	102	–	–
Cash flow hedges	5	4	–	–
Foreign currency translation reserve	(52)	48	–	–
Share of other comprehensive income of associates and joint ventures	(7)	5	–	–
Total tax (expense)/benefit relating to items of other comprehensive income	(153)	159	–	–

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

Investments in subsidiaries, associates, securities available for sale and joint ventures	93	(194)	–	–
Fixed assets	(23)	40	–	–
Financial instruments	(170)	(388)	(84)	–
Intangible assets	(19)	37	–	–
Other assets and liabilities	(203)	10	(9)	(12)
Tax Losses	44	222	120	–
Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities	(278)	(273)	27	(12)

⁽¹⁾ Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2012: 30 per cent).

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

During the year, Macquarie Group has received amended assessments from the Australian Tax Office (ATO), which cover a range of items. In accordance with ATO practice, the Group has paid some of the primary tax and interest covered by these amended assessments and this has been recognised in these financial statements as a tax receivable.

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$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 (\$0.75 (2012: \$0.65) per share) ⁽¹⁾	252	224	251	224
2012 final dividend paid (\$0.75 (2011: \$1.00) per share) ⁽²⁾	259	346	258	345
Dividends (reversed)/provided for ⁽³⁾	(2)	2	(4)	2
Total dividends paid or provided for (note 29)	509	572	505	571

⁽¹⁾ Interim dividend paid by the Consolidated Entity includes \$1 million (2012: \$nil) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. as described in note 28 – Contributed equity.

⁽²⁾ Final dividend paid by the Consolidated Entity includes \$1 million (2012: \$1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc as described in note 28 – Contributed equity.

⁽³⁾ Dividends (reversed)/provided for by the Consolidated Entity relate to the dividend on the exchangeable shares issued as consideration for the acquisition of Tristone Capital Global Inc. as described in note 28 – Contributed equity.

The final dividend paid during the financial year was unfranked (full year to 31 March 2012: unfranked). The interim dividend paid during the financial year was unfranked (half year to 31 March 2012: unfranked). The dividends paid to holders of exchangeable shares were not franked.

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

(ii) Dividends not recognised at the end of the financial year

Since the end of the financial year, the Directors have recommended the payment of the 2013 final dividend of \$1.25 per fully paid ordinary share, 40 per cent franked based on tax paid at 30 per cent. The aggregate amount of the proposed dividend expected to be paid on 2 July 2013 from retained profits at 31 March 2013, but not recognised as a liability at the end of the financial year, is \$420 million (including \$1 million to be paid by a subsidiary to the holders of the exchangeable shares and net of \$5 million to be received on treasury shares (refer to note 28 – Contributed equity for further details of these instruments)). This amount has been estimated based on the number of shares eligible to participate as at 31 March 2013.

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Dividend per ordinary share				
Cash dividend per ordinary share (distribution of current year profits)	\$2.00	\$1.40	\$2.00	\$1.40
Franking credits available for the subsequent financial year at a corporate tax rate of 30 per cent (2012: 30 per cent)				
	297	75	297	75

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 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

Macquarie Income Securities

Distributions paid (net of distributions previously provided for)	17	21	–	–
Distributions provided for	4	5	–	–
Total distributions paid or provided for	21	26	–	–

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

Macquarie Income Preferred Securities

Distributions paid (net of distributions previously provided for)	2	2	–	–
Distributions provided for	2	2	–	–
Total distributions paid or provided for	4	4	–	–

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Refer to note 29 - Reserves, retained earnings and non-controlling interests for further details on these instruments. MBL can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at MBL's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity.

Consolidated 2013	Consolidated 2012
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Note 6

Earnings per share

Cents per share

Basic earnings per share	251.2	210.1
Diluted earnings per share	246.1	202.3
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	\$m	\$m
Profit after income tax	872	762
Add (profit)/loss attributable to non-controlling interests:		
Macquarie Income Securities	(21)	(26)
Macquarie Income Preferred Securities	(4)	(4)
Other non-controlling interests	4	(2)
Total profit attributable to ordinary equity holders of MGL	851	730
Less profit attributable to participating unvested MEREP awards	(61)	(43)
Total earnings used in the calculation of basic earnings per share	790	687
Add back adjusted interest expense on Exchangeable Capital Securities	13	–
Add back adjusted interest expense on Macquarie Convertible Preference Securities ⁽¹⁾	35	–
Add back profit attributable to dilutive participating unvested MEREP awards	39	–
Total earnings used in the calculation of diluted earnings per share	877	687

⁽¹⁾ Macquarie Convertible Preference Securities were not dilutive as at 31 March 2012 on the basis of share prices prevailing at that time.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Consolidated
2013

Consolidated
2012

Note 6

Earnings per share continued

	Number of shares	
Total weighted average number of externally held ordinary shares used in the calculation of basic earnings per share	314,518,789	327,014,737
Weighted average number of shares used in the calculation of diluted earnings per share		
Weighted average fully paid externally held ordinary shares	314,518,789	327,014,737
Potential ordinary shares:		
Weighted average options	26,883	17,174
Weighted average unvested MEREP awards	18,781,003	12,242,186
Weighted average retention securities and options	59,457	140,632
Weighted average Exchangeable Capital Securities	6,800,228	119,270
Weighted average Macquarie Convertible Preference Securities ⁽¹⁾	16,167,729	–
Total weighted average number of externally held ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	356,354,089	339,533,999

(1) Macquarie Convertible Preference Securities were not dilutive as at 31 March 2012 on the basis of share prices prevailing at that time.

Options

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

Included in the balance of weighted average options are 2,372 (2012: 1,402) options that were converted, lapsed or cancelled during the financial year. There are a further 8,806,873 (2012: 19,753,127) 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 2013 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 MGL in December 2009. The last grant of options under the MGESOP was on 8 December 2009. Currently MGL does not expect to issue any further options under the MGESOP.

Macquarie Group Employee Retained Equity Plan

In December 2009 MGL shareholders approved the implementation of the MEREP.

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

Unvested MEREP awards are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. Included in the balance of weighted average unvested MEREP awards are 1,874,531 (2012: 1,193,335) MEREP awards that were vested, lapsed or cancelled during the financial year. As at 31 March 2013, a further 68,591 (2012: 935,794) MEREP awards have not been included in the balance of weighted average MEREP awards on the basis that they are not considered to be dilutive.

Exchangeable Shares

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

Retention Securities and Options

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

Exchangeable Capital Securities

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

Macquarie Convertible Preference Securities

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

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 7

Receivables from financial institutions

Cash at bank ⁽¹⁾	9,291	10,062	–	–
Cash collateral on securities borrowed and reverse repurchase agreements ⁽²⁾	6,283	7,598	–	–
Other loans to banks	524	757	–	–
Due from clearing houses	418	93	–	–
Total receivables from financial institutions⁽³⁾	16,516	18,510	–	–

⁽¹⁾ Included within this balance is \$54 million (2012: \$39 million) provided as security over payables to other financial institutions.

⁽²⁾ The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral held as at 31 March 2013 is \$6,665 million (2012: \$7,946 million), which is generally sold or re-pledged.

⁽³⁾ Receivables from financial institutions include \$3,134 million (2012: \$2,557 million) held in segregated deposit fund and escrow account which are restricted for use.

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

In the year ended 31 March 2012, \$7,598 million (2011: \$8,790 million) of cash collateral on securities borrowed and reverse repurchase agreements were disclosed as a separate line in the statement of financial position.

Note 8

Trading portfolio assets

Equities				
Listed	6,831	5,606	–	–
Unlisted	31	36	–	–
Commonwealth government securities	5,601	31	–	–
Corporate securities	2,218	2,073	–	–
Commodities	2,261	2,010	–	–
Foreign government securities	1,756	1,345	–	–
Other government securities ⁽¹⁾	640	1,094	–	–
Treasury notes	252	223	–	–
Promissory notes	132	235	–	–
Bank bills	54	36	–	–
Total trading portfolio assets^{(2),(3)}	19,776	12,689	–	–

⁽¹⁾ Other government securities include state and local governments and related enterprises, predominantly in Australia.

⁽²⁾ Included within these balances are assets pledged as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is \$98 million (2012: \$nil).

⁽³⁾ Included within this balance are assets of \$6,993 million (2012: \$2,014 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 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Note 9				
Investment securities available for sale				
Equity securities				
Listed ⁽¹⁾	2,236	1,724	–	–
Unlisted	920	732	–	–
Debt securities ^{(2),(3)}	13,901	15,810	–	–
Total investment securities available for sale⁽⁴⁾	17,057	18,266	–	–

(1) Included within this balance is \$nil (2012: \$2 million) provided as security over payables to other financial institutions.

(2) Included within this balance is \$3,357 million (2012: \$3,070 million) of Negotiable Certificates of Deposits (NCD) receivable from financial institutions and \$20 million (2012: \$120 million) of bank bills.

(3) Included within this balance is \$1,002 million (2012: \$757 million) provided as security over payables to other financial institutions.

(4) Included within this balance is \$297 million (2012: \$286 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, \$6,217 million (2012: \$6,773 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 10

Other assets

Security settlements ⁽¹⁾	5,567	7,180	–	–
Debtors and prepayments	4,455	5,566	6	4
Income tax receivable	741	446	150	23
Property held for sale and development	245	360	–	–
Other	179	165	–	–
Total other assets⁽²⁾	11,187	13,717	156	27

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

(2) Included within this balance is \$259 million (2012: \$195 million) of assets which are provided as security over amounts payable to other financial institutions.

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

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 11

Loan assets held at amortised cost

Due from other entities, net of individually assessed provision for impairment

Other loans and advances ⁽¹⁾	42,227	39,526	–	–
Lease receivables ⁽²⁾	5,275	4,625	–	–
Total due from other entities, net of individually assessed provision for impairment	47,502	44,151	–	–
Due from clearing houses	1,578	1,202	–	–
Due from governments⁽³⁾	243	103	–	–
Total loan assets before collective allowance for credit losses	49,323	45,456	–	–
Less collective allowance for credit losses	(240)	(238)	–	–
Total loan assets held at amortised cost^{(4),(5),(6)}	49,083	45,218	–	–

(1) The balance is net of \$331 million (2012: \$386 million) of individually assessed provision for impairment.

(2) The balance is net of \$4 million (2012: \$3 million) of individually assessed provision for impairment.

(3) Governments include federal, state and local governments and related enterprises, predominantly in Australia. Included within this balance is \$163 million (2012: \$103 million) of finance lease receivables.

(4) Included within this balance are loans of \$10,774 million (2012: \$12,935 million) held by consolidated Special Purpose Entities (SPEs), which are pledged as security to note holders and debt providers.

(5) Included within this balance are other loans of \$1,760 million (2012: \$874 million) pledged as security over issued notes and payables to other external investors and financial institutions.

(6) Included within this balance are loans of \$5,863 million (2012: \$7,211 million) that are held by either a government-backed securitisation vehicle or financial institutions, and which are pledged as security to note holders. Further, loans of \$455 million (2012: \$329 million) are pledged under repurchase agreements.

Of the above amounts, \$13,740 million (2012: \$12,313 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Individually assessed provisions for impairment

Balance at the beginning of the financial year	389	334	–	–
Provided for during the financial year (note 2)	104	103	–	–
Loan assets written off, previously provided for	(141)	(19)	–	–
Recovery of loans previously provided for (note 2)	(12)	(30)	–	–
Impact of foreign currency translation	(5)	1	–	–
Balance at the end of the financial year	335	389	–	–
Individually assessed provisions as a percentage of total gross loan assets	0.67%	0.85%	–	–

Collective allowance for credit losses

Balance at the beginning of the financial year	238	227	–	–
Provided for during the financial year (note 2)	3	13	–	–
Impact of foreign currency translation	(1)	(2)	–	–
Balance at the end of the financial year	240	238	–	–

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 11

Loan assets held at amortised cost continued

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

	Consolidated 2013			Consolidated 2012		
	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m
No later than one year	1,996	(213)	1,783	1,805	(203)	1,602
Later than one year and no later than five years	4,106	(510)	3,596	3,593	(484)	3,109
Later than five years	97	(34)	63	25	(5)	20
Total finance lease receivables	6,199	757	5,442	5,423	(692)	4,731

Note 12

Impaired financial assets

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Impaired debt investment securities available for sale before individually assessed provisions for impairment	9	11	–	–
Less individually assessed provisions for impairment	(7)	(10)	–	–
Debt investment securities available for sale after individually assessed provisions for impairment	2	1	–	–
Impaired loan assets and other financial assets before individually assessed provisions for impairment	828	874	–	–
Less individually assessed provisions for impairment	(415)	(469)	–	–
Loan assets and other financial assets after individually assessed provisions for impairment	413	405	–	–
Total net impaired financial assets	415	406	–	–

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 13

Other financial assets at fair value through profit or loss

Investment securities				
Equity securities	2,378	2,255	–	–
Debt securities	1,177	2,025	–	–
Loan assets	1,478	2,435	–	–
Total other financial assets at fair value through profit or loss⁽¹⁾	5,033	6,715	–	–

⁽¹⁾ Included within this balance is \$595 million (2012: \$1,122 million) provided as security over payables to other financial institutions.

Of the above amounts, \$2,340 million (2012: \$1,306 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 14

Life investment contracts and other unitholder investment assets

Cash and receivables from financial institutions	270	77	–	–
Debt securities	298	550	–	–
Units in unit trusts	6,540	5,148	–	–
Equity securities	132	129	–	–
Total life investment contracts and other unitholder investment assets	7,240	5,904	–	–

Investment assets are held to satisfy policy and unitholder liabilities, which are predominantly investment linked.

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

Income from life investment contracts and other unitholder investment assets

Premium income, investment revenue and management fees	761	346	–	–
Life investment contract claims, reinsurance and changes in policy liabilities	(624)	(233)	–	–
Direct fees	(59)	(42)	–	–
Total income from life investment contracts and other unitholder investment assets (note 2)	78	71	–	–

Solvency requirements for the life investment contracts business have been met at all times during the financial year.

As at 31 March 2013, the life investment contracts business had investment assets in excess of policy holder liabilities of \$32 million (2012: \$14 million).

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Note 15				
Property, plant and equipment				
Assets for own use				
Land and buildings				
Cost	185	42	–	–
Less accumulated depreciation	(7)	(6)	–	–
Total land and buildings	178	36	–	–
Furniture, fittings and leasehold improvements				
Cost	675	761	–	–
Less accumulated depreciation	(379)	(387)	–	–
Total Furniture, fittings and leasehold improvements	296	374	–	–
Equipment				
Cost	186	210	–	–
Less accumulated depreciation	(164)	(159)	–	–
Total equipment	22	51	–	–
Infrastructure assets				
Cost	14	15	–	–
Less accumulated depreciation	(2)	(2)	–	–
Total infrastructure assets	12	13	–	–
Total assets for own use	508	474	–	–
Assets under operating lease				
Aviation				
Cost	3,533	3,660	–	–
Less accumulated depreciation	(387)	(241)	–	–
Total aviation	3,146	3,419	–	–
Meters				
Cost	798	730	–	–
Less accumulated depreciation	(138)	(75)	–	–
Total meters	660	655	–	–
Rail cars				
Cost	1,105	489	–	–
Less accumulated depreciation	(47)	(29)	–	–
Total rail cars	1,058	460	–	–
Others				
Cost	340	287	–	–
Less accumulated depreciation	(69)	(60)	–	–
Total others	271	227	–	–
Total assets under operating lease	5,135	4,761	–	–
Total property, plant and equipment	5,643	5,235	–	–

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

Note 15

Property, plant and equipment continued

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

	Land and buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Infrastructure assets \$m	Total \$m
Assets for own use					
Balance at 1 April 2011	47	497	83	16	643
Acquisitions	1	78	24	–	103
Disposals	(5)	(73)	(1)	–	(79)
Impairments	(6)	(8)	–	(3)	(17)
Foreign exchange movements	–	(7)	(1)	–	(8)
Depreciation expense (note 2)	(1)	(113)	(54)	–	(168)
Balance at 31 March 2012	36	374	51	13	474
Acquisitions	159	37	10	–	206
Disposals	–	(8)	(4)	–	(12)
Reclassification	–	1	(1)	–	–
Impairments	(16)	(9)	–	(1)	(26)
Foreign exchange movements	–	(7)	(2)	–	(9)
Depreciation expense (note 2)	(1)	(92)	(32)	–	(125)
Balance at 31 March 2013	178	296	22	12	508

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 \$80 million (2012: \$53 million).

	Aviation \$m	Meters \$m	Rail cars \$m	Other \$m	Total \$m
Assets under operating lease					
Balance at 1 April 2011	3,898	173	137	156	4,364
Acquisitions	41	516	337	121	1,015
Disposals	(346)	–	(6)	(6)	(358)
Reclassification	–	–	–	(11)	(11)
Impairments	(7)	–	–	–	(7)
Foreign exchange movements	9	5	2	1	17
Depreciation expense	(176)	(39)	(10)	(34)	(259)
Balance at 31 March 2012	3,419	655	460	227	4,761
Acquisitions	72	84	677	125	958
Disposals	(135)	–	(25)	(26)	(186)
Reclassification	(33)	32	–	(3)	(4)
Foreign exchange movements	(17)	(34)	(33)	(3)	(87)
Depreciation expense	(160)	(77)	(21)	(49)	(307)
Balance at 31 March 2013	3,146	660	1,058	271	5,135

Included in the balance of operating leases are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is \$2,289 million (2012: \$2,305 million).

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Consolidated	Consolidated	Company	Company
2013	2012	2013	2012
\$m	\$m	\$m	\$m

Note 15

Property, plant and equipment continued

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

Assets under operating lease

Not later than one year	577	493	–	–
Later than one year and no later than five years	1,203	1,231	–	–
Later than five years	183	212	–	–
Total future minimum lease payments receivable	1,963	1,936	–	–

Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 16

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

Loans and investments without provisions for impairment	1,911	2,000	–	–
Loans and investments with provisions for impairment	661	1,294	–	–
Less provision for impairment	(524)	(630)	–	–
Loans and investments at recoverable amount	137	664	–	–
Total interests in associates and joint ventures accounted for using the equity method⁽¹⁾	2,048	2,664	–	–

⁽¹⁾ Included within this balance is \$25 million (2012: \$nil) provided as security over payables to other financial institutions.

The fair value of certain interests in material associates and joint ventures, for which there are public quotations, are below their carrying value by \$93 million (2012: \$77 million).

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

Consolidated 2013 \$m	Consolidated 2012 \$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	2,664	2,790
Associates acquired/equity invested	492	370
Share of pre-tax profits of associates and joint ventures	131	154
Share of tax expense of associates and joint ventures	(39)	(46)
Dividends received from associates	(103)	(118)
Associates disposed of	(635)	(312)
Impairment of investments in associates	(136)	(119)
Foreign exchange and other adjustments	(41)	(70)
Transferred (to)/from other asset categories	(285)	15
Balance at the end of the financial year	2,048	2,664

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 16

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	
			2013 %	2012 %
MPF Holdings Limited ^(a)	United Kingdom	31 December	30	–
Macquarie Goodman Japan Pte Limited ^{(1),(b)}	Singapore	31 March	–	50
MGPA Limited ^{(2),(b)}	Bermuda	30 June	56	56
Miclyn Express Offshore Limited ^{(1),(c)}	Bermuda	30 June	–	33
Southern Cross Media Group ^(d)	Australia	30 June	25	25

(1) Sold during the financial year.

(2) Significant influence arises due to the Consolidated Entity's voting power and board representation being less than 50 per cent.

(a) Infrastructure

(b) Property development/management

(c) Metals, mining and energy

(d) Television and radio investments

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
(iii) Contingent liabilities of associates and joint ventures are as follows:				
Share incurred jointly with other investors	24	33	–	–
For which the Consolidated Entity is severally liable	12	17	–	–

(iv) Financial information of interests in associates and joint ventures are as follows:

Consolidated Entity's share of:

Assets	5,895	7,101	–	–
Liabilities	3,664	4,346	–	–
Revenues	1,074	1,206	–	–
Profit after tax	92	108	–	–

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 17

Intangible assets

Goodwill	613	693	–	–
Intangible assets with indefinite lives	243	246	–	–
Customer and servicing contracts	121	146	–	–
Other identifiable intangible assets	244	266	–	–
Total intangible assets	1,221	1,351	–	–

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

Reconciliation of the Consolidated Entity's movement in intangible assets:

	Goodwill \$m	Intangible assets with indefinite lives \$m	Customer and servicing contracts \$m	Other identifiable intangible assets \$m	Total \$m
Balance at 1 April 2011	665	259	186	207	1,317
Acquisitions	51	–	–	147	198
Reclassifications	1	–	–	(1)	–
Adjustments to purchase consideration ⁽¹⁾	(5)	–	9	(5)	(1)
Disposals	(7)	–	–	(18)	(25)
Impairment	(6)	(12)	(17)	(2)	(37)
Amortisation expense (note 2)	–	–	(32)	(54)	(86)
Currency translation difference	(6)	(1)	–	(8)	(15)
Balance at 31 March 2012	693	246	146	266	1,351
Acquisitions	–	–	2	68	70
Reclassifications	(1)	–	–	1	–
Adjustments to purchase consideration ⁽¹⁾	(1)	–	–	2	1
Disposals	(67)	–	(2)	(14)	(83)
Impairment	–	–	(3)	(27)	(30)
Amortisation expense (note 2)	–	–	(20)	(42)	(62)
Currency translation difference	(11)	(3)	(2)	(10)	(26)
Balance at 31 March 2013	613	243	121	244	1,221

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

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

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

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

Fair value less costs to sell calculations are determined using an earnings multiple approach applicable to that type of business. These have been determined by reference to historical company and industry experience and publicly available data.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Investments at cost without provisions for impairment	–	–	11,091	11,265
Investments at cost with provisions for impairment	–	–	15,044	15,423
Less provisions for impairment	–	–	(13,163)	(13,163)
Investments at recoverable amount	–	–	1,881	2,260
Total investments in subsidiaries	–	–	12,972	13,525

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

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

- Delaware Investments U.S., Inc. (United States)
- Delaware Management Company (United States)
- Delaware Management Company, Inc. (United States)
- Delaware Management Holdings, Inc. (United States)
- DMH Corp. (United States)
- Macquarie Aerospace Limited (Bermuda)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Affiliated Managers Holdings (USA) Inc. (United States)
- Macquarie Agricultural Funds Management
- Macquarie Alternative Assets Management
- Macquarie Americas Holdings Pty Ltd
- Macquarie Australia Pty
- Macquarie B.H. Pty Ltd
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited
- Macquarie Capital (Australia) Limited
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Capital (Singapore) PTE. Limited (Singapore)
- Macquarie Capital Group Limited
- Macquarie Capital Securities (Singapore) Pte. Limited (Singapore)
- Macquarie Capital Securities Limited (Hong Kong)
- Macquarie Corporate and Asset Finance Holdings Inc. (United States)
- Macquarie Corporate and Asset Finance Limited
- Macquarie Credit Nexus Master Fund Limited (Cayman Islands)
- Macquarie FG Holdings Inc. (United States)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Holdings Limited
- Macquarie Financial Limited (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 Infrastructure and Real Assets (Europe) Limited (United Kingdom)
- Macquarie Infrastructure and Real Assets Inc. (United States)
- Macquarie Infrastructure Management (USA) Inc. (United States)
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Leasing Pty. Limited
- Macquarie Lending & Investment Partners LLP (United Kingdom)
- Macquarie PMI LLC (United States)
- Macquarie Private Wealth Inc. (Canada)
- Macquarie Real Estate Inc. (United States)
- Macquarie Securities South Africa (Proprietary) Limited (South Africa)
- Macquarie Services (USA) Partners (United States)
- Macquarie TCG (USA) LLC (United States)
- Map Holding Trust
- Macquarie Group Employee Retained Equity Plan (MEREP Trust)
- MIHI LLC (United States)

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

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all entities is 100 per cent.

All material entities have a 31 March reporting date.

In accordance with ASIC instruments 12-0250, 12-1311 and 13-0151, Macquarie Group has been granted relief under section 340 of the *Corporations Act 2001 (Cth)* from synchronising the year-end of the following entities that are in its consolidated group:

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

This is of no consequence to the consolidation as, while the year-ends of the above entities are different to that of Macquarie Group, the results and balances included in the consolidation are at the reporting date of 31 March.

Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 19

Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

Other assets and liabilities	546	342	(11)	(2)
Tax losses	653	609	181	100
Investments in subsidiaries, securities available for sale, associates and joint ventures	309	374	–	–
Fixed assets	103	126	–	–
Set-off of deferred tax liabilities	(341)	(172)	127	211
Total deferred tax assets	1,270	1,279	297	309
Intangible assets	(122)	(103)	–	–
Other assets and liabilities	(197)	(106)	–	–
Financial instruments	(564)	(399)	127	211
Set-off of deferred tax assets	341	172	(127)	(211)
Total deferred tax liabilities	(542)	(436)	–	–
Net deferred tax assets	728	843	297	309

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 \$63 million (2012: \$74 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.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Note 20				
Trading portfolio liabilities				
Listed equity securities	1,057	2,585	–	–
Foreign government securities	253	266	–	–
Corporate securities	187	213	–	–
Commonwealth government securities	–	551	–	–
Total trading portfolio liabilities	1,497	3,615	–	–

Note 21

Other liabilities

Due to brokers and customers	5,949	7,858	–	–
Creditors	4,423	5,081	–	–
Accrued charges and sundry provisions	1,677	1,760	52	18
Income tax payable	70	105	–	–
Other	272	292	–	–
Total other liabilities	12,391	15,096	52	18

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

Note 22

Payables to financial institutions

Cash collateral on securities lent and repurchase agreements	10,495	4,826	–	–
OECD banks	4,866	5,784	2,370	3,178
Other	2,714	2,019	–	–
Total payables to financial institutions	18,075	12,629	2,370	3,178

In the year ended 31 March 2012, \$4,826 million (2011: \$6,617 million) of cash collateral on securities lent and repurchase agreements were disclosed as a separate line in the statement of financial position.

Note 23

Other financial liabilities at fair value through profit or loss

Equity linked notes	1,663	2,243	–	–
Debt issued at fair value	41	490	–	–
Total other financial liabilities at fair value through profit or loss	1,704	2,733	–	–

Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 24

Debt issued at amortised cost

Debt issued at amortised cost ⁽¹⁾	38,014	39,713	4,269	4,459
Total debt issued at amortised cost	38,014	39,713	4,269	4,459

⁽¹⁾ Included within this balance are amounts payable to SPE note holders of \$9,393 million (2012: \$11,474 million).

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

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

(In Australian dollar equivalent):

United States dollars	18,951	16,802	3,644	3,636
Australian dollars	9,085	12,958	139	318
Canadian dollars	5,868	7,192	–	–
Japanese yen	2,292	2,056	486	505
Swiss franc	1,004	13	–	–
Euro	604	1,405	–	–
South African rand	592	747	–	–
Great British pounds	442	476	–	–
Korean won	431	488	–	–
Hong Kong dollars	250	88	–	–
Singapore dollars	76	119	–	–
Others	123	102	–	–
Total by currency	39,718	42,446	4,269	4,459

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

Note 25

Provisions

Provision for annual leave	107	126	–	–
Provision for long service leave	82	83	–	–
Provision for other employee entitlements	18	20	–	–
Provision for dividends	6	12	–	5
Total provisions	213	241	–	5

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 26

Capital management strategy

The Company and Consolidated Entity's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The Consolidated Entity's capital management objectives are to:

- continue to support the Consolidated Entity's credit rating;
- ensure sufficient capital resource to support the Consolidated Entity's business and operational requirements;
- maintain sufficient capital to exceed externally imposed capital requirements; and
- safeguard the Consolidated Entity's ability to continue as a going concern.

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A subsidiary of the Company, MBL, is accredited by APRA to apply Basel III Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book.

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations. Level 3 consists of the Level 2 group plus the Non-Bank Group.

APRA requires ADIs to have a minimum ratio of capital to risk weighted assets (RWAs) of 8 per cent at both Level 1 and Level 2, with at least 6 per cent of this capital in the form of Tier 1 capital and at least 4.5 per cent of this capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. At the Level 3 group, which involves the Non-Operating Holding Company structure, APRA has imposed minimum regulatory capital requirements calculated as the sum of the dollar value of:

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

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

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

Note 27

Loan capital

Subordinated debt

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the Consolidated Entity. Details of selected capital instruments are discussed below.

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie CPS at face value of \$100 each. These instruments are non-cumulative and unsecured and may be resold, mandatorily converted into MGL 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, and thereafter a floating rate will apply.

The total number of MGL ordinary shares that would be issued if Macquarie CPS were exchanged at 31 March 2013 would be 16,170,611.

Macquarie Preferred Membership Interests

On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued US\$400 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 Macquarie PMIs bear fixed-rate coupons at 8.375 per cent per annum, paid semi-annually.

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

Exchangeable Capital Securities

On 26 March 2012, MBL, acting through its London Branch, issued US\$250 million of Exchangeable Capital Securities (ECS).

The ECS, being unsecured subordinated notes, pay non-cumulative interest of 10.25 per cent per annum, payable semi annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of MBL as to whether payments should be made. If interest is not paid on the ECS on an interest payment date, MBL and the Company will be restricted from paying dividends or returning capital on their ordinary shares until the next interest payment date.

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL ordinary shares will be issued at a 5 per cent discount to the MGL share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange. There is no additional amount payable by an ECS holder on an exchange. No ECS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if ECS were exchanged at 31 March 2013 would be 6,800,228.

The maximum total number of MGL ordinary shares that can be issued on an exchange is 17,689,525.

The ECS will only be redeemable, subject to APRA's written approval, at the discretion of the Bank in limited circumstances, including following a change in law that has an impact on the regulatory or tax treatment of the ECS.

As at 31 March 2013, the remaining principal liability related to the ECS was US\$250 million (2012: US\$250 million).

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 27

Loan capital continued

Maturity and currency profiles of loan capital instruments

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

Less than 12 months	88	87	–	–
12 November 2014	9	10	–	–
31 May 2017	–	299	–	–
21 September 2020	808	767	–	–
7 April 2021	1,098	963	–	–
Subordinated debt	2,003	2,126	–	–
Instruments with conditional repayment obligations:				
Macquarie CPS ⁽¹⁾	600	600	–	–
Macquarie PMI	384	386	–	–
ECS	240	241	–	–
Loan capital	3,227	3,353	–	–
Less directly attributable issue cost	(7)	(10)	–	–
Total Loan capital⁽²⁾	3,220	3,343	–	–

Reconciliation of subordinated debt by major currency:

(In Australian dollar equivalent)

United States dollars	1,770	1,625	–	–
Euro	841	801	–	–
Australian dollars	616	927	–	–
Loan capital	3,227	3,353	–	–
Less directly attributable issue cost	(7)	(10)	–	–
Total loan capital⁽²⁾	3,220	3,343	–	–

⁽¹⁾ Accrued interest of \$16 million (31 March 2012: \$17 million) is included in the less than 12 months principal sum due to lenders.

⁽²⁾ The balance is net of fair value hedge accounting adjustments.

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

The carrying value of subordinated debt at fair value through profit or loss at 31 March 2013 is \$nil (2012: equal to the contractual amount).

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

	Consolidated 2013 number of shares	Consolidated 2012 number of shares	Consolidated 2013 \$m	Consolidated 2012 \$m
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Note 28

Contributed equity

Ordinary share capital

Opening balance of fully paid ordinary shares ⁽¹⁾	348,584,383	346,814,961	7,127	7,079
Issue of shares on exercise of options	52,676	29,013	2	1
Issue of shares on exercise of MEREP awards	21,948	3,530	1	–
Employee Share Plan (ESP) share issue at \$23.81 per share	–	35,834	–	1
Dividend Reinvestment Plan (DRP) share issue at \$34.60 per share	–	1,407,153	–	49
Issue of shares on retraction of exchangeable shares at \$80.30 per share	379,687	198,398	30	16
Issue of shares on retraction of exchangeable shares with vesting conditions at \$50.80 per share	244,931	62,162	12	3
Issue of shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	32,002	33,332	–	–
Cancellation of shares under the share buyback program in the range of \$24.27 to \$28.95 per share	(9,809,049)	–	(251)	–
For employee MEREP awards that have vested during the financial year:				
Transfer from share-based payments reserve	–	–	160	79
Transfer from treasury shares for shares withdrawn	–	–	(199)	(101)
Closing balance of fully paid ordinary shares⁽¹⁾	339,506,578	348,584,383	6,882	7,127

⁽¹⁾ The opening and closing balances of ordinary share capital and treasury shares have been adjusted for withdrawals of the treasury shares in prior periods in order to show the relationship with transfers from the share-based payments reserve. The adjustment reduced the balance of ordinary share capital at 1 April 2011 by \$61 million with an offsetting impact in treasury shares. This has no impact on contributed equity.

As at 31 March 2013, 8,725,398 (2012: 19,585,781) options granted to employees over unissued ordinary shares were on issue, excluding options which cannot be exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 33 – Employee equity participation. Disclosures regarding the Company's DRP are included in note 5 – Dividends and distributions paid or provided for.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Company 2013 number of shares	Company 2012 number of shares	Company 2013 \$m	Company 2012 \$m
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Note 28

Contributed equity continued

Ordinary share capital

Opening balance of fully paid ordinary shares ⁽¹⁾	348,584,383	346,814,961	9,919	9,883
Issue of shares on exercise of options	52,676	29,013	2	1
Issue of shares on exercise of MEREP awards	21,948	3,530	1	–
ESP share issue at \$23.81 per share	–	35,834	–	1
DRP share issue at \$34.60 per share	–	1,407,153	–	49
Exchangeable shares in the range of \$24.98 to \$37.53 (31 March 2012: \$21.93 to \$34.72) per share	379,687	198,398	13	5
Exchangeable shares in the range of \$25.29 to \$31.16 (31 March 2012: \$22.97 to \$34.66) per share	244,931	62,162	7	2
Issue of shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	32,002	33,332	–	–
Cancellation of shares under the share buyback program in the range of \$24.27 to \$28.95 per share	(9,809,049)	–	(251)	–
For employee MEREP awards that have vested during the financial year:				
Transfer from share-based payments reserve	–	–	160	79
Transfer from treasury shares for shares withdrawn	–	–	(199)	(101)
Closing balance of fully paid ordinary shares⁽¹⁾	339,506,578	348,584,383	9,652	9,919

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Treasury shares

Opening balance of 24,646,608 (1 April 2011: 14,725,998) treasury shares ⁽¹⁾	(974)	(670)	(967)	(665)
Purchase of 8,955,127 (31 March 2012: 12,175,549) shares for employee MEREP awards	(242)	(403)	(242)	(403)
Transfer of 4,619,934 (31 March 2012: 2,254,939) shares withdrawn/exercised for vested MEREP awards	199	101	199	101
Purchase of 2,739,543 (31 March 2012: 1,197,422) shares for DRP share issue	(78)	(28)	(78)	(28)
Allocation of 2,739,543 (31 March 2012: 1,197,422) shares under DRP scheme	78	28	78	28
Purchase of 9,809,049 (31 March 2012: nil) shares under the share buyback program pending cancellation	(251)	–	(251)	–
Cancellation of 9,809,049 (31 March 2012: nil) shares under the share buyback program	251	–	251	–
Market value adjustment of shares held under life business	(1)	(2)	–	–
Closing balance of 28,981,801 (31 March 2012: 24,646,608)				
Treasury shares⁽²⁾	(1,018)	(974)	(1,010)	(967)

⁽¹⁾ The opening and closing balances of ordinary share capital and treasury shares have been adjusted for withdrawals of the treasury shares in prior periods in order to show the relationship with transfers from the share-based payments reserve. The adjustment reduced the balance of ordinary share capital at 1 April 2011 by \$61 million with an offsetting impact in treasury shares. This has no impact on contributed equity.

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

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 28

Contributed equity continued

Exchangeable shares

Opening balance of 1,759,522 (1 April 2011: 2,150,614) exchangeable shares	82	104	–	–
Issue of 38,118 (31 March 2012: 40,943) exchangeable shares with retention conditions at \$50.80 per share, exchangeable to shares in MGL on a one-for-one basis ^(1,2)	–	2	–	–
Retraction of 379,687 (31 March 2012: 198,398) exchangeable shares at \$80.30 per share, exchangeable to shares in MGL on a one-for-one basis ⁽³⁾	(30)	(16)	–	–
Retraction of 244,931 (31 March 2012: 62,162) exchangeable shares with retention conditions at \$50.80 per share, exchangeable to shares in MGL on a one-for-one basis	(12)	(3)	–	–
Cancellation of 32,060 (31 March 2012: 10,442) exchangeable shares at \$80.30 per share	(3)	(1)	–	–
Cancellation of 536,756 (31 March 2012: 152,562) exchangeable shares at \$50.80 per share	(1)	(4)	–	–
Cancellation of nil (31 March 2012: 8,471) exchangeable shares with retention conditions at \$50.80 per share	–	–	–	–
Closing balance of 604,206 (31 March 2012: 1,759,522) exchangeable shares	36	82	–	–

⁽¹⁾ The exchangeable shares were issued by a subsidiary in August 2009 as consideration for the acquisition of Tristone Capital Global Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. They 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 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 2013, the total number of retention options remaining is nil (2012: 40,941).

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

⁽³⁾ The exchangeable shares were issued by a subsidiary in November 2007 as consideration for the acquisition of Orion Financial Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. 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 2013, the total number of retention options remaining is nil (2012: 33,336).

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Contributed equity	5,900	6,235	8,642	8,952

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Note 29				
Reserves, retained earnings and non-controlling interests				
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	(777)	(820)	–	–
Currency translation differences arising during the financial year, net of hedge and tax	(118)	43	–	–
Balance at the end of the financial year	(895)	(777)	–	–
Available for sale reserve				
Balance at the beginning of the financial year	120	382	–	–
Revaluation movement for the financial year, net of tax	117	(118)	–	–
Transfer to income statement upon impairment, net of tax	161	22	–	–
Transfer to income statement on realisation, net of tax	(85)	(166)	–	–
Balance at the end of the financial year	313	120	–	–
Share-based payments reserve				
Balance at the beginning of the financial year	766	789	766	604
Option (reversal)/expense for the financial year	(16)	12	–	–
MEREP expense including related tax effect for the financial year	271	229	–	–
Options issued to employees of subsidiaries (note 31)	–	–	(16)	12
MEREP issued to employees of subsidiaries (note 31)	–	–	258	229
Transfer to share capital on vesting of MEREP awards	(160)	(79)	(160)	(79)
Transfer to retained earnings ⁽¹⁾	(173)	(185)	(173)	–
Balance at the end of the financial year	688	766	675	766
Cash flow hedging reserve				
Balance at the beginning of the financial year	(47)	(37)	–	–
Revaluation movement for the financial year, net of tax	(2)	(10)	–	–
Balance at the end of the financial year	(49)	(47)	–	–
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	(18)	(4)	–	–
Share of other comprehensive income/(expense) during the financial year	18	(14)	–	–
Balance at the end of the financial year	–	(18)	–	–
Total reserves at the end of the financial year	57	44	675	766
Retained earnings				
Balance at the beginning of the financial year	4,924	4,581	2,678	2,834
Profit attributable to ordinary equity holders of MGL	851	730	1197	415
Dividends paid on ordinary share capital (note 5)	(509)	(572)	(505)	(571)
Transfer from share-based payments reserve ⁽¹⁾	173	185	173	–
Balance at the end of the financial year	5,439	4,924	3,543	2,678

⁽¹⁾ Includes \$173 million (March 2012: \$185 million) transferred to retained earnings in respect of expired and lapsed options.

Note 29

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Securities

The Macquarie Income Securities issued by MBL were listed for trading on the Australian Securities Exchange (formerly the Australian Stock 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 (2012: 1.7 per cent per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

Macquarie Income Preferred Securities

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. MIPS, guaranteed non-cumulative step-up perpetual preferred securities, currently pay a 6.177 per cent (2012: 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.

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

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Macquarie Income Securities				
4,000,000 Macquarie Income Securities of \$100 each	400	400	–	–
Less transaction costs for original placement	(9)	(9)	–	–
Total Macquarie Income Securities	391	391	–	–
Macquarie Income Preferred Securities				
Proceeds on issue of Macquarie Income Preferred Securities	107	107	–	–
Less issue costs	(1)	(1)	–	–
	106	106	–	–
Foreign currency translation reserve	(46)	(43)	–	–
Total Macquarie Income Preferred Securities	60	63	–	–
Other non-controlling interests				
Ordinary share capital	63	33	–	–
Preference share capital	2	2	–	–
Foreign currency translation reserve	(16)	(15)	–	–
Retained earnings	52	55	–	–
Total other non-controlling interests	101	75	–	–
Total non-controlling interests	552	529	–	–

Notes to the financial statements

for the financial year ended 31 March 2013

continued

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
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Note 30

Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to related items in the statements of financial position as follows:

Receivables from financial institutions ^{(1),(2)}	10,022	10,853	–	–
Trading portfolio assets and debt securities ⁽³⁾	3,057	3,975	–	–
Cash and cash equivalents at the end of the financial year	13,079	14,828	–	–

⁽¹⁾ Includes cash at bank, overnight cash at bank, other loans to financial institutions and amounts due from clearing houses as per note 1(xxii) – Summary of significant accounting policies.

⁽²⁾ Cash and cash equivalents include \$3,134 million (2012: \$2,557 million) held in segregated deposit fund and escrow account which are restricted for use.

⁽³⁾ Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities as per note 1(xxii) – Summary of significant accounting policies.

Reconciliation of profit after income tax to net cash flows from operating activities

Profit after income tax	872	762	1,197	415
Adjustments to profit after income tax:				
Depreciation and amortisation	494	513	–	–
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	(388)	(250)	–	–
Provision and impairment charge on financial and non-financial assets	635	467	–	–
Gain on sale of non-financial asset	–	(104)	–	–
Interest on available for sale financial assets	(132)	(109)	–	–
Net gains on sale of investment securities available for sale and associates and joint ventures	(443)	(305)	–	–
Share-based payments expense	255	243	–	–
Share of net profits of associates and joint ventures accounted for using the equity method	(92)	(108)	–	–
Changes in assets and liabilities:				
Change in amount due from subsidiaries under tax funding agreement	–	–	23	97
Change in dividends receivable	122	(19)	–	–
Change in values of associates due to dividends received	103	118	–	–
Change in fees and non-interest income receivable	(20)	(267)	–	–
Change in fees and commissions payable	(122)	71	–	–
Change in tax balances	(310)	(28)	(129)	(247)
Change in provisions for employee entitlements	(20)	8	–	–
Change in loan assets	(4,056)	712	337	2,223
Change in loan payable to a subsidiary	–	–	–	(737)
Change in debtors, prepayments, accrued charges and creditors	112	(90)	5	5
Change in net trading portfolio assets and liabilities and net derivative financial instruments	(95)	1,927	–	–
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	2,049	581	(984)	(934)
Change in life investment contract receivables	588	290	–	–
Net cash flows (used in)/from operating activities	(448)	4,412	449	822

Note 31

Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of management and administration services.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Company except when the parties have the legal right and intention to offset.

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

In the financial year ended 31 March 2008 the Company received a \$10.1 billion intra-group loan from MBL. This facility was fully repaid on 27 April 2011.

A list of material subsidiaries is set out in note 18 – 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 2013, current tax assets of subsidiaries assumed by MGL as the head entity of the tax consolidated group amounted to \$28 million (2012: \$94 million). As at 31 March 2013, the amount receivable by the Company under the tax funding agreement with the tax consolidated entities is \$150 million (2012: \$172 million receivable). This balance is included in Due from subsidiaries in the Company's separate statement of financial position.

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

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Interest income received/receivable	–	–	292	349
Interest expense paid/payable	–	–	(19)	(32)
Share-based payments to employees of subsidiaries (note 29)	–	–	(242)	(241)
Dividends and distributions	–	–	1,262	492
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	–	–	6,992	7,317
Amounts payable ⁽¹⁾	–	–	(828)	(1,072)

⁽¹⁾ As described in note 1(xxi) – Summary of significant accounting policies, the Company has recognised a liability as at 31 March 2013 of \$316 million (2012: \$338 million) for amounts received in advance as at 31 March 2013 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 38 – Average interest bearing assets and liabilities and related interest.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 31

Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures are eliminated where they are unrealised, to the extent of ownership interests held by the Consolidated Entity, in the consolidated income statement.

During the financial year, the following income/(expense) resulted from transactions with associates and joint ventures:

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Interest income received/receivable	–	2	–	–
Fee and commission income ⁽¹⁾	531	427	–	–
Other income	1	4	–	–
Gains on sale of securities (note 2) ⁽²⁾	208	108	–	–
Dividends and distributions ⁽³⁾	103	118	–	–
Brokerage, commission and trading-related expenses	(5)	(6)	–	–

⁽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 16 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2013 \$m	Consolidated 2012 \$m	Company 2013 \$m	Company 2012 \$m
Amounts receivable	648	299	–	–
Amounts payable	(120)	(120)	–	–

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

Note 32

Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of the Company during the financial years ended 31 March 2013 and 31 March 2012, unless indicated.

Executive Directors

N.W. Moore ⁽¹⁾	Managing Director and Chief Executive Officer
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Non-Executive Directors

M.J. Coleman	(appointed 9 November 2012)
D.J. Grady AM	(appointed 19 May 2011)
M. J. Hawker AM	
P.M. Kirby	
C.B. Livingstone AO	
H.K. McCann AM	Non-Executive Chairman
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 2013 and 31 March 2012, unless otherwise indicated.

Current Executives⁽¹⁾

S.D. Allen ⁽¹⁾	Chief Risk Officer
T.C. Bishop ⁽¹⁾	Group Head, Macquarie Capital (appointed 1 January 2012) Former Country Head, United States of America (2 July 2010 to 31 December 2011)
A.J. Downe ⁽¹⁾	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell ⁽¹⁾	Group Head, Corporate and Asset Finance Group
P.J. Maher ⁽¹⁾	Group Head, Banking and Financial Services Group
M. McLaughlin ⁽¹⁾	Country Head, United States of America (appointed 1 January 2012)
S. Vrcelj ⁽¹⁾	Group Head, Macquarie Securities Group (appointed 7 April 2011)
G.C. Ward ⁽¹⁾	Deputy Managing Director (appointed 20 December 2011) Former Chief Financial Officer (to 20 December 2011)
S. Wikramanayake ⁽¹⁾	Group Head, Macquarie Funds Group
N. Sorbara ⁽¹⁾	Chief Operating Officer (appointed 1 January 2013)

Former Executives

M. Carapiet	Former Executive Chairman, Macquarie Capital and Macquarie Securities Group (retired 11 July 2011)
R.S. Laidlaw	Former Executive Chairman, Macquarie Securities Group (11 July 2011 to 31 December 2011). Former Group Head, Macquarie Securities Group (to 7 April 2011)
W.R. Sheppard	Former Group Head, Macquarie Capital (to 31 December 2011) Former Deputy Managing Director (retired from the Executive Committee on 20 December 2011)

⁽¹⁾ Members of the Consolidated Entity's Executive Committee as at 3 May 2013.

The principles of compensation for all of the persons listed above are described in Appendix 3 of the Remuneration Report, contained in the Directors' Report on pages 69 to 73.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 32

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for Key Management Personnel (KMP):

	Short-term Employee Benefits			Long-term Employee Benefits	Share-based Payments			Total remuneration
	Salary and fees (including superannuation)	Performance related remuneration ⁽¹⁾	Other benefits		Restricted profit share ⁽²⁾	Equity awards including shares ⁽³⁾	PSUs/options ⁽⁴⁾	
	\$	\$	\$	Total short-term Employee Benefits \$	\$	\$	\$	\$
Executive Remuneration								
2013	7,416,628	18,812,127	–	26,228,755	10,301,772	17,280,256	2,142,308	55,953,091
2012	8,048,031	17,087,936	–	25,135,967	6,545,563	25,435,760	6,345,616	63,462,906
Non-Executive Remuneration								
2013	3,275,223	–	31,600	3,306,823	–	–	–	3,306,823
2012	3,098,836	–	62,500	3,161,336	–	–	–	3,161,336

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

(2) The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS plan) including earnings on notional investments from retained profit share in prior years. For 2012 this amount also includes an adjustment for a reallocation of prior year's profit share from restricted profit share to share based payments.

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

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

Note 32

Key Management Personnel disclosure continued

Shareholdings of Key Management Personnel and their related parties

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

For the financial year ended 31 March 2013

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

⁽¹⁾ Or date of appointment if later.

⁽²⁾ Includes on-market acquisitions and disposals.

⁽³⁾ Or date of resignation/retirement if earlier.

⁽⁴⁾ Mr Coleman was appointed to the board on 9 November 2012. The opening balance on 1 April 2012 represents his holdings at the date of appointment.

⁽⁵⁾ Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. The opening balance on 1 April 2012 represents her holdings at the date of appointment.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 32

Key Management Personnel disclosure continued

Shareholdings of key management personnel and their related parties

For the financial year ended 31 March 2012

Name and position	Number of shares held at 1 April 2011 ⁽¹⁾	Shares received on withdrawal from the MEREP	Other changes ⁽²⁾	Number of shares held at 31 March 2012 ⁽³⁾
Executive Directors				
N.W. Moore	1,245,745	120,708	–	1,366,453
Non-Executive Directors				
H.K. McCann	13,485	–	–	13,485
D.J. Grady ⁽⁴⁾	2,000	–	114	2,114
M.J. Hawker	6,103	–	2,500	8,603
P.M. Kirby	23,198	–	–	23,198
C.B. Livingstone	12,000	–	–	12,000
J.R. Niland	10,122	–	–	10,122
H.M. Nugent	21,176	–	–	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen	38,205	13,288	(13,290)	38,203
T.C. Bishop	72,264	18,078	(6,104)	84,238
A.J. Downe	58,099	4,993	(563)	62,529
G.A. Farrell	131,683	–	–	131,683
P.J. Maher	8,737	11,045	(10,148)	9,634
M. McLaughlin ⁽⁵⁾	–	–	–	–
S. Vrcelj	–	9,341	(9,341)	–
G.C. Ward	8,936	10,598	(10,598)	8,936
S. Wikramanayake	335,352	9,558	–	344,910
Former				
M. Carapiet ⁽⁶⁾	587,616	3,201	(3,201)	587,616
R. S. Laidlaw ⁽⁶⁾	1,865	13,159	–	15,024
W.R. Sheppard ⁽⁶⁾	228,183	15,163	–	243,346

⁽¹⁾ Or date of appointment if later.

⁽²⁾ Includes on-market acquisitions and disposals.

⁽³⁾ Or date of resignation/retirement if earlier.

⁽⁴⁾ Ms Grady was appointed to the board on 19 May 2011. The opening balance on 1 April 2011 represents her holdings at the date of appointment.

⁽⁵⁾ Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents his holdings at the date of appointment.

⁽⁶⁾ Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. Balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Note 32

Key Management Personnel disclosure continued

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

The following tables set out details of the MEREP RSU awards held during the year for the Key Management Personnel including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report from pages 74 to 77. Further details in relation to the MEREP RSU awards are disclosed in note 33 – Employee equity participation.

For the financial year ended 31 March 2013

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

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

⁽²⁾ Or date of appointment if later.

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

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

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

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

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 32

Key Management Personnel disclosure continued

MEREP RSU Awards of Key Management Personnel and their related parties

For the financial year ended 31 March 2012

Name and position	Number of RSU awards held at 1 April 2011 ⁽¹⁾	RSU awards granted during the financial year ⁽²⁾	Vested RSU awards withdrawn from the MEREP during the financial year ⁽³⁾	Number of RSU awards held at 31 March 2012 ⁽⁴⁾
Executive Directors				
N.W. Moore	571,822	152,602	(117,134)	607,290
Executives				
S.D. Allen ⁽⁵⁾	140,579	40,158	(13,288)	167,449
T.C. Bishop ⁽⁶⁾	153,168	68,138	(18,078)	203,228
A.J. Downe	178,838	87,129	–	265,967
G.A. Farrell	60,508	60,668	–	121,176
P.J. Maher	114,881	46,469	(9,832)	151,518
M. McLaughlin ⁽⁷⁾	258,851	–	–	258,851
S. Vrcelj	95,038	56,021	(9,341)	141,718
G.C. Ward	122,895	45,895	(8,106)	160,684
S. Wikramanayake ⁽⁸⁾	74,148	37,290	(8,485)	102,953
Former				
M. Carapiet ⁽⁹⁾	80,376	29,543	–	109,919
R.S. Laidlaw ⁽⁹⁾	184,885	91,260	(13,159)	262,986
W.R. Sheppard ⁽⁹⁾	115,699	34,421	(14,799)	135,321

(1) Or date of appointment if later.

(2) As discussed in note 1(xxi) – Summary of significant accounting policies, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above relate to 2011.

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

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

(5) At 31 March 2012, 84,832 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.

(6) At 31 March 2012, 66,151 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) Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

(8) At 31 March 2012, 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.

(9) Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. During the year the BRC exercised its discretion to accelerate the vesting of retained profit share in the form of RSUs for Mr Carapiet, Mr Sheppard and Mr Laidlaw due to the announcement of their intention to cease employment on the grounds of genuine retirement. This acceleration is effective the date they cease employment with the Company. All outstanding amortisation has been recognised as an expense in the current year. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Note 32

Key Management Personnel disclosure continued

MEREP PSU Awards of Key Management Personnel and their related parties

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

For the financial year ended 31 March 2013

Name and position	Number of PSU awards held at 1 April 2012 ⁽¹⁾	PSU awards granted during the financial year ⁽²⁾	Vested PSU awards exchanged during the financial year	PSU awards not able to be exercised due to performance hurdles not met ⁽³⁾	Number of PSU awards held at 31 March 2013 ⁽⁴⁾	Number of PSU awards vested and not exercised during the financial year	Number of PSU awards vested and not exercised at 31 March 2013 ⁽⁴⁾
Executive Directors							
N.W. Moore	293,740	120,667	–	(48,841)	365,566	–	–
Executives							
S.D. Allen	89,079	52,353	–	(9,968)	131,464	–	–
T.C. Bishop	71,317	26,814	–	–	98,131	–	–
A.J. Downe	248,955	107,259	–	(51,022)	305,192	–	–
G.A. Farrell	79,027	98,321	–	–	177,348	–	–
P.J. Maher	106,050	53,629	–	(16,598)	143,081	–	–
M. McLaughlin	–	15,961	–	–	15,961	–	–
N. Sorbara ⁽⁵⁾	–	–	–	–	–	–	–
S. Vrcelj	52,170	–	–	–	52,170	–	–
G.C. Ward	129,273	58,737	–	(23,570)	164,440	–	–
S. Wikramanayake	119,973	116,836	–	(12,142)	224,667	–	–

(1) Or date of appointment if later.

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

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 32

Key Management Personnel disclosure continued

MEREP PSU Awards of Key Management Personnel and their related parties

For the financial year ended 31 March 2012

Name and position	Number of PSU awards held at 1 April 2011 ⁽¹⁾	PSU awards granted during the financial year ⁽²⁾	Vested PSU awards exercised during the financial year	PSU awards not able to be exercised due to performance hurdles not met ⁽³⁾	Number of PSU awards held at 31 March 2012 ⁽⁴⁾	Number of PSU awards vested and not exercised during the financial year	Number of PSU awards vested and not exercised at 31 March 2012 ⁽⁴⁾
Executive Directors							
N.W. Moore	146,525	159,981	(3,574)	(9,192)	293,740	–	–
Executives							
S.D. Allen	29,906	59,173	–	–	89,079	–	–
T.C. Bishop	–	71,317	–	–	71,317	–	–
A.J. Downe	153,067	113,721	(4,993)	(12,840)	248,955	–	–
G.A. Farrell	–	79,027	–	–	79,027	–	–
P.J. Maher	49,796	60,587	(1,213)	(3,120)	106,050	–	–
M. McLaughlin ⁽⁵⁾	–	–	–	–	–	–	–
S. Vrcelj	–	52,170	–	–	52,170	–	–
G.C. Ward	70,711	67,462	(2,492)	(6,408)	129,273	–	–
S. Wikramanayake	36,427	87,379	(1,073)	(2,760)	119,973	–	–
Former							
M. Carapiet ⁽⁶⁾	103,924	–	(3,201)	(8,232)	92,491	–	–
R.S. Laidlaw ⁽⁶⁾	93,210	109,866	–	(4,968)	198,108	1,932	1,932
W.R. Sheppard ⁽⁶⁾	28,827	50,500	(364)	(936)	78,027	–	–

⁽¹⁾ Or date of appointment if later.

⁽²⁾ As discussed in note 1(xxi) – Summary of significant accounting policies, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. PSUs disclosed as granted above relate to 2011.

⁽³⁾ Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2011 were partially achieved and therefore some PSU awards did not become exercisable and lapsed. These awards are not exchangeable and related expense previously recognised on these PSU grants was reversed during the current and prior financial years.

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

⁽⁵⁾ Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

⁽⁶⁾ Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. During the year the BRC exercised its discretion to waive the employment condition attached to the PSUs yet to vest for Mr Carapiet, Mr Sheppard and Mr Laidlaw due to the announcement of their intention to cease employment on the grounds of genuine retirement. The PSUs become exercisable only upon the achievement of the performance hurdles tested at each vesting date in the future. All outstanding amortisation on these PSUs has been recognised as an expense in the current year. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Note 32

Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties⁽¹⁾

The following tables set out details of options held during the year for the Key Management Personnel including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report from pages 77 to 78. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. Further details in relation to the MGESOP are disclosed in note 33 – Employee equity participation. There were no options issued to Key Management Personnel during the financial years ended 31 March 2013 and 31 March 2012.

For the financial year ended 31 March 2013

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

⁽¹⁾ A related party of Mr M.J. Coleman holds vested options in the MGESOP. Mr M.J. Coleman does not influence any investment decision over, nor does he receive any benefit from, this holding.

⁽²⁾ Or date of appointment if later.

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

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

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

⁽⁶⁾ Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. The opening balance on 1 April 2012 represents holdings at the date of appointment.

⁽⁷⁾ Options outstanding exclude options that are not exercisable due to performance hurdles not being met.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 32

Key Management Personnel disclosure continued

For the financial year ended 31 March 2012

Name and position	Number of options outstanding at 1 April 2011 ^{(1),(7)}	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 2012 ^{(4),(7)}	Number of options vested during the financial year	Number of options vested at 31 March 2012 ^{(4),(7)}
Executive Directors							
N.W. Moore	267,401	–	(132,768)	(53,333)	81,300	–	–
Executives							
S.D. Allen	148,975	–	–	(55,490)	93,485	31,163	73,785
T.C. Bishop	330,805	–	–	(57,805)	273,000	91,001	241,666
A.J. Downe	175,334	–	(87,667)	(28,333)	59,334	–	–
G.A. Farrell	178,095	–	–	(60,115)	117,980	39,328	92,980
P.J. Maher	51,668	–	(25,000)	(10,000)	16,668	–	–
M. McLaughlin ⁽⁵⁾	19,000	–	–	–	19,000	–	12,666
S. Vrcelj	108,000	–	–	(26,000)	82,000	27,333	58,666
G.C. Ward	55,667	–	(27,833)	(10,000)	17,834	–	–
S. Wikramanayake	128,609	–	(26,666)	(30,085)	71,858	15,064	45,190
Former							
M. Carapiet ⁽⁶⁾	223,120	–	(108,666)	(66,668)	47,786	–	47,786
R.S. Laidlaw ⁽⁶⁾	250,605	–	(45,000)	(83,240)	122,365	25,789	77,365
W.R. Sheppard ⁽⁶⁾	64,000	–	(32,000)	(15,000)	17,000	–	–

⁽¹⁾ Or date of appointment if later.

⁽²⁾ Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2011 were not achieved and therefore the options did not become exercisable. The related expense previously recognised on these option grants was reversed during the year ended 31 March 2011. The value of those options that failed to become exercisable on 1 July 2011 was \$nil.

⁽³⁾ Includes vested options lapsed and forfeited during the financial year.

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

⁽⁵⁾ Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

⁽⁶⁾ Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

⁽⁷⁾ Options outstanding exclude options that are not exercisable due to performance hurdles not being met.

Note 32

Key Management Personnel disclosure continued

Details of Share-based payment grant dates affecting compensation for the years ending 31 March 2013 and 31 March 2012

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 32

Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April \$'000	Interest charged \$'000	Write-downs \$'000	Closing balance at 31 March \$'000
Total for Key Management Personnel and their related parties	2013	5,739	377	–	5,718
	2012	5,539	374	–	5,888
Total for Key Management Personnel⁽¹⁾	2013	5,739	377	–	5,718
	2012	5,539	374	–	5,888

⁽¹⁾ Number of persons included in the aggregate at 31 March 2013: 3 (2012: 3).

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

Key Management Personnel including their related parties with loans above \$100,000 at any time during the financial year ended 31 March 2013 are as follows

Name and position	Balance at 1 April 2012⁽¹⁾ \$'000	Interest charged⁽²⁾ \$'000	Write-downs \$'000	Balance at 31 March 2013⁽³⁾ \$'000	Highest balance during financial year \$'000
Executive Directors					
N.W. Moore	5,274	348	–	5,274	5,274
Executives					
P.J. Maher	376	28	–	362	376

⁽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/retirement if earlier.

Note 32

Key Management Personnel disclosure continued

For the financial year ended 31 March 2012

Name and position	Balance at 1 April 2011 ⁽¹⁾ \$'000	Interest charged ⁽²⁾ \$'000	Write-downs \$'000	Balance at 31 March 2012 ⁽³⁾ \$'000	Highest balance during financial year \$'000
Executive Directors					
N.W. Moore	5,274	356	–	5,274	5,274
Executives					
P.J. Maher	27	5	–	376	376
Former					
R.S. Laidlaw ⁽⁴⁾	238	13	–	238	238

⁽¹⁾ Or date of appointment if later.

⁽²⁾ All loans provided by the Consolidated Entity to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

⁽³⁾ Or date of resignation/retirement if earlier.

⁽⁴⁾ Mr Laidlaw retired from the Executive Committee effective 31 December 2011. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Other transactions with Key Management Personnel and their related parties

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

	Consolidated 2013 \$'000	Consolidated 2012 \$'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	623	1,336
Total value of iUnits options	520	36

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

Executive Directors

N.W. Moore

Executives

S.D. Allen, T.C. Bishop (2013), A.J. Downe, G.A. Farrell, P.J. Maher, S.Vrcelj, G.C. Ward, S. Wikramanayake

Former

M. Carapiet (2012), R.S. Laidlaw (2012), W.R. Sheppard (2012)

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 33

Employee equity participation

Macquarie Group Employee Retained Equity Plan

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

Award Types under the MEREP

Restricted Share Units (RSUs)

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

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by the Company in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. The Company may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on Company shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon

any bonus issue or other capital reconstruction of the Company in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders 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 2012, 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.

Restricted Shares

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

Note 33

Employee equity participation continued

The following is a summary of Awards which have been granted pursuant to the MEREP:

	Number of RSU Awards 2013	Number of RSU Awards 2012
RSUs on issue at the beginning of the financial year	20,768,204	12,823,140
Granted during the financial year	8,913,496	11,469,408
Vested RSUs withdrawn or sold from the MEREP during the financial year	(4,075,540)	(2,386,642)
Forfeited during the financial year	(905,680)	(1,137,702)
RSUs on issue at the end of the financial year	24,700,480	20,768,204
RSUs vested and not withdrawn from the MEREP at the end of the financial year	15,226	465,731

The weighted average fair value of the RSU Awards granted during the financial year was \$26.79 (2012: \$31.21).

	Number of DSU Awards 2013	Number of DSU Awards 2012
DSUs on issue at the beginning of the financial year	3,028,154	1,479,382
Granted during the financial year	2,092,458	1,914,568
Exercised during the financial year	(522,544)	(111,951)
Forfeited during the financial year	(281,188)	(253,845)
DSUs on issue at the end of the financial year	4,316,880	3,028,154
DSUs exercisable at the end of the financial year	280,489	146,141

The weighted average fair value of the DSU Awards granted during the financial year was \$27.71 (2012: \$31.20).

	Number of PSU Awards 2013	Number of PSU Awards 2012
PSUs on issue at the beginning of the financial year	1,558,210	712,393
Granted during the financial year	650,577	911,183
Exercised during the financial year	(1,932)	(16,910)
Expired during the financial year	(237,461)	(48,456)
PSUs on issue at the end of the financial year	1,969,394	1,558,210
PSUs exercisable at the end of the financial year	–	1,932

The weighted average fair value of the PSU Awards granted during the financial year was \$21.91 (2012: \$20.89).

	Number of Restricted Share Awards 2013	Number of Restricted Share Awards 2012
Restricted shares on issue at the beginning of the financial year	31,795	–
Granted during the financial year	115,869	31,795
Released during the financial year	(55,106)	–
Forfeited during the financial year	–	–
Restricted shares on issue at the end of the financial year	92,558	31,795
Restricted shares vested but not released at the end of the financial year	–	–

The weighted average fair value of the restricted shares granted during the financial year was \$31.65 (2012: \$26.70).

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 33

Employee equity participation continued

The awards are measured at their grant dates based on their fair value and for each PSU, the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution.

For the year ended 31 March 2013, compensation expense relating to the MEREP totalled \$287 million (2012: \$258 million).

Participation in the MEREP is currently provided to the following Eligible Employees:

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards);
- Executive Directors with pre-2009 retained DPS (which they elected to transition into the MEREP);
- staff other than Executive Directors with retained profit share (Retained Profit Share Awards) and staff who are promoted to Associate Director, Division Director or Executive Director, who receive a fixed allocation of MEREP awards (Promotion Awards);
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed number of MEREP awards depending on level (New Hire Awards);
- members of the MGL and MBL Executive Committees who are eligible for PSUs; and
- in limited circumstances, Macquarie staff who may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Group on the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to below as New Hire Awards).

Vesting periods are as follows:

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

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

⁽²⁾ Vesting will occur on the first day of a staff trading window following 1 July of the specified year. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.

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

In limited cases, the Application Form for awards may set out a different vesting period, in which case that period will be the vesting period for the Award.

For Retained Profit Share Awards representing 2012 retention, the allocation price was the weighted average price of the Shares acquired for the 2012 Purchase Period, which was 7 May 2012 to 7 June 2012 (excluding the pricing period for the Macquarie Group Dividend Reinvestment Plan from 17 May 2012 to 23 May 2012 inclusive). That price was calculated to be \$26.97 (2011 retention: \$33.06).

Note 33

Employee equity participation continued

Performance Share Units

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded. These hurdles are set out below. The BRC periodically reviews the performance hurdles, including the reference group, and has the discretion to change the performance hurdles in line with regulatory and remuneration trends. Any change will be disclosed in the Consolidated Entity's Annual Report.

The hurdles were changed during the year-ending 31 March 2013 for grants made from 1 April 2013 onwards. The new hurdles are outlined below.

Performance hurdle 1

Hurdle	Reference group	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50 per cent of the PSUs based solely on the relative average annual return on equity (ROE) over the vesting period (three to four years) compared to a reference group of global peers. A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent vesting at the 75th percentile.	The current reference group comprises Barclays, Bank of America, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan, Lazard, Morgan Stanley and UBS.	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

Hurdle	Required result	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50 per cent of the PSUs, based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years).	A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent and 100 per cent at EPS CAGR of 12.0 per cent. For example, if EPS CAGR were 9.75 per cent, 75 per cent of the Award would become exercisable.	A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 9.0 per cent and 100 per cent at EPS CAGR of 13.0 per cent. For example, if EPS CAGR were 11.0 per cent, 75 per cent of the Award would become exercisable.

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

Other arrangements

There are certain arrangements with employees which take the form of a share-based payment but which are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however the arrangements have the same economic benefits as those held in MEREP.

Compensation expense relating to these awards for the year ending 31 March 2013 was \$1 million (2012: \$2 million).

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 33

Employee equity participation continued

Option Plan

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

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

At 31 March 2013 there were 1,460 (2012: 1,989) participants in the MGESOP.

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

	Number of options 2013	Weighted average exercise price 2013 \$	Number of options 2012	Weighted average exercise price 2012 \$
Outstanding at the beginning of the financial year	19,585,781	60.13	31,089,010	60.63
Forfeited during the financial year	(1,755,821)	48.53	(847,908)	50.51
Exercised during the financial year	(52,676)	26.34	(29,013)	24.13
Lapsed during the financial year	(9,051,886)	69.79	(10,626,308)	62.40
Outstanding at the end of the financial year	8,725,398	52.63	19,585,781	60.13
Exercisable at the end of the financial year	8,630,026	52.78	15,393,363	62.22

For options exercised during the financial year the weighted average share price at the date of exercise was \$31.42 (2012: \$28.70). The range of exercise prices for options outstanding at the end of the financial year was \$17.10 to \$63.09 (2012: \$17.10 to \$94.48).

The weighted average remaining contractual life for the share options outstanding as at 31 March 2013 is 0.40 years (2012: 1 year). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range \$	Number of options 2013	Remaining life (years) 2013	Number of options 2012	Remaining life (years) 2012
10 – 20	14,668	0.94	21,624	1.94
20 – 30	156,991	0.90	215,679	1.83
30 – 40	292,629	0.82	361,252	1.73
40 – 50	176,279	0.63	257,079	1.55
50 – 60	8,046,447	0.37	11,322,462	1.34
60 – 70	38,384	0.10	246,168	0.84
70 – 80	–	–	6,761,280	0.38
80 – 90	–	–	256,971	0.23
90 – 100	–	–	143,266	0.20
	8,725,398	0.40	19,585,781	1.00

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

There were no options issued in the financial year.

The number of outstanding options as at 3 May 2013 is 8,526,997.

The market value of shares issued during the year as a result of the exercise of these options was \$1.6 million (2012: \$0.8 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2013 was \$324 million (2012: \$570 million). No unissued shares, other than those referred to above, are under option under the MGESOP as at the date of this report.

The options were measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution.

Note 33

Employee equity participation continued

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

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

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

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

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

For the year ended 31 March 2013, compensation expense relating to exchangeable shares, retention securities and option plans totalled a credit of \$15 million (2012: expense of \$14 million).

Employee Share Plan

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

Shares 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 November 2012. A total of 826 (2012: 874) staff participated in this offer. On 3 December 2012, the participants were each allocated 30 (2012: 41) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$32.85 (2012: \$23.81); a total of 24,780 (2012: 35,834) shares were issued. The shares were issued for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

Historical Share Plans

Share are no longer being issued under the following plans however employees still hold shares issued in previous years.

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 subsequently 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 the 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.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 33

Employee equity participation continued

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.

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 from 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. The first offers under this sub-plan were made in May 2008.

No offers under the MGSSAP (including the Macquarie Group Executive Committee Acquisition Plan) were made during the year 31 March 2013 (2012: Nil).

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 subsequently introduced a Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) on the same terms. The Australian taxation changes referred to above in respect of the MGSSAP also apply to the NEDSAP. Accordingly, the Company 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 had 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 2013 (2012: Nil).

Other plans

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

Consolidated	Consolidated	Company	Company
2013	2012	2013	2012
\$m	\$m	\$m	\$m

Note 34

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

Contingent liabilities exist in respect of:

Guarantees	310	254	3,057	1,200
Letters of credit	271	151	–	–
Performance related contingents	228	209	–	–
Indemnities	18	–	–	–
Total contingent liabilities⁽¹⁾	827	614	3,057	1,200

Commitments exist in respect of:

Undrawn credit facilities	3,267	4,289	–	–
Forward asset purchases	849	1,035	–	–
Total commitments⁽²⁾	4,116	5,324	–	–
Total contingent liabilities and commitments	4,943	5,938	3,057	1,200

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

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

Note 35

Lease commitments

Non-cancellable operating leases expiring:

Not later than one year	166	171	–	–
Later than one year and not later than five years	482	556	–	–
Later than five years	430	525	–	–
Total operating lease commitments	1,078	1,252	–	–

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

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 36

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Consolidated Entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 1(xi)–Summary of significant accounting policies:

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the Consolidated Entity, which is hedged with interest rate swaps and cross currency swaps.

At 31 March 2013, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was \$134 million negative value (2012: \$51 million negative value).

During the year the Consolidated Entity recognised \$nil (2012: \$4 million gains) in the income statement due to hedge ineffectiveness on cash flow hedges.

Fair value hedges: The Consolidated Entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates; and
- foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2013, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$293 million positive value (2012: \$395 million positive value).

During the year fair value losses on the hedging instruments of \$102 million have been recognised (2012: \$91 million losses), offset by \$89 million (2012: \$88 million gains) of gains on the hedged item.

Net investment in foreign operations hedges:

The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its non-core foreign operations.

At 31 March 2013, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was \$55 million positive value (2012: \$14 million negative value). During the year the Consolidated Entity recognised \$1 million gains (2012: \$2 million gains) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to \$3,355 million (2012: \$2,433 million) is designated as a hedge of its net investment in foreign operations. The fair value of the borrowing at 31 March 2013 was \$3,754 million (2012: \$2,506 million). The foreign exchange gain of \$24 million (2012: \$1 million) on translation of the borrowing to currency at the end of the reporting period is recognised in other comprehensive income.

The types of derivative financial instruments which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross-currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Note 37

Financial risk management

Risk Management Group

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are market risk, equity risk, credit risk, liquidity risk, operational risk, legal risk and compliance risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group (RMG), and in the case of legal risk, Legal and Governance, to ensure appropriate assessment and management of these risks.

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

Note 37.1

Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not paid back, or the loss incurred in replicating a trading contract with a new counterparty.

The responsibility for approval of credit exposures is delegated to specific individuals by the Board of MGL. While Operating Groups are assigned modest levels of Credit discretions, all credit exposures above these levels are independently assessed by RMG. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and acceptable. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year, or more frequently if necessary. Retail credit exposures are monitored on a portfolio basis.

Credit exposures for loans are evaluated as the full face value whereas exposures for derivatives are a function of potential market movements. When trading gives rise to settlement risk, this exposure is assessed as the full face value of the settlement amount. Credit exposures which fluctuate through the duration of the transaction are updated daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

To mitigate credit risk, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

All wholesale exposures are allocated an MGL rating on a 1 – 17 scale which broadly corresponds with Standard & Poor's and Moody's Investor Services credit ratings. Each MGL rating is assigned a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

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

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

All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and ensure provisioning is adequate.

A review of the credit portfolio that involves analysing credit concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities, interests in associates and joint ventures or bank notes and coins.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 37.1

Credit risk continued

Maximum exposure to credit risk

The table below details the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets before the benefit of collateral and credit enhancements.

	Receivables from financial institutions \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m
Australia				
Governments	–	6,077	343	3,370
Financial institutions	4,652	120	3,095	5,501
Other	–	126	797	175
Total Australia	4,652	6,323	4,235	9,046
Asia Pacific				
Governments	–	915	–	95
Financial institutions	1,192	426	256	717
Other	–	306	129	–
Total Asia Pacific	1,192	1,647	385	812
Europe, Middle East and Africa				
Governments	–	19	–	63
Financial institutions	4,945	194	5,340	2,730
Other	–	10	1,778	282
Total Europe, Middle East and Africa	4,945	223	7,118	3,075
Americas				
Governments	–	1,135	25	–
Financial institutions	5,727	758	1,448	949
Other	–	567	1,493	19
Total Americas	5,727	2,460	2,966	968
Total gross credit risk	16,516	10,653	14,704	13,901

Other financial assets \$m	Loan assets held at amortised cost \$m	Other	Credit commitments and contingent liabilities \$m	Total \$m
Consolidated 2013				
3	155	395	–	10,343
37	382	139	33	13,959
2,201	26,874	1,124	1,669	32,966
2,241	27,411	1,658	1,702	57,268
–	2	–	–	1,012
–	261	–	5	2,857
2,435	463	–	211	3,544
2,435	726	–	216	7,413
–	5	61	–	148
–	2,002	765	143	16,119
2,131	3,881	100	623	8,805
2,131	5,888	926	766	25,072
–	81	–	–	1,241
–	2,316	–	151	11,349
2,637	12,661	71	2,108	19,556
2,637	15,058	71	2,259	32,146
9,444	49,083	2,655	4,943	121,899

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 37.1

Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m
Australia				
Governments	–	924	348	2,996
Financial institutions	5,556	235	4,076	7,005
Other	–	48	1,299	54
Total Australia	5,556	1,207	5,723	10,055
Asia Pacific				
Governments	–	1,066	36	39
Financial institutions	1,455	311	232	610
Other	–	179	204	–
Total Asia Pacific	1,455	1,556	472	649
Europe, Middle East and Africa				
Governments	–	–	–	76
Financial institutions	4,497	143	9,327	3,728
Other	–	31	1,949	349
Total Europe, Middle East and Africa	4,497	174	11,276	4,153
Americas				
Governments	–	607	68	–
Financial institutions	7,002	565	2,490	817
Other	–	928	2,049	136
Total Americas	7,002	2,100	4,607	953
Total gross credit risk	18,510	5,037	22,078	15,810

Other financial assets \$m	Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Credit commitments and contingent liabilities \$m	Total \$m
Consolidated 2012				
312	68	885	–	5,533
36	652	323	24	17,907
2,403	23,319	1,543	1,702	30,368
2,751	24,039	2,751	1,726	53,808
106	1	–	–	1,248
–	349	38	1	2,996
2,045	344	–	114	2,886
2,151	694	38	115	7,130
425	1	42	–	544
–	761	1,462	297	20,215
3,332	3,744	88	665	10,158
3,757	4,506	1,592	962	30,917
377	33	–	–	1,085
–	2,006	2	225	13,107
3,598	13,940	77	2,910	23,638
3,975	15,979	79	3,135	37,830
12,634	45,218	4,460	5,938	129,685

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 37.1

Credit risk continued

Maximum exposure to credit risk continued

	Other financial assets \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
Australia				
Other	6	6,955	490	7,451
Total Australia	6	6,955	490	7,451
Asia Pacific				
Other	–	14	284	298
Total Asia Pacific	–	14	284	298
Europe, Middle East and Africa				
Other	–	–	656	656
Total Europe, Middle East and Africa	–	–	656	656
Americas				
Other	–	23	1,627	1,650
Total Americas	–	23	1,627	1,650
Total	6	6,992	3,057	10,055
Total gross credit risk				10,055
Australia				
Governments	24	–	–	24
Other	3	7,315	359	7,677
Total Australia	27	7,315	359	7,701
Asia Pacific				
Other	–	2	350	352
Total Asia Pacific	–	2	350	352
Europe, Middle East and Africa				
Other	–	–	462	462
Total Europe, Middle East and Africa	–	–	462	462
Americas				
Other	–	–	29	29
Total Americas	–	–	29	29
Total gross credit risk	27	7,317	1,200	8,544

Note 37.1

Credit risk continued

Collateral and credit enhancements held

Receivables from financial institutions

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

Securities borrowed and reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

Loan assets held at amortised cost

Residential mortgage loans

Residential mortgages are secured by fixed charges over a borrower's property. Further, Macquarie obtains lender's mortgage insurance (LMI) to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. In Australia and Canada, LMI is taken out for all mortgages to cover 100 per cent of the original principal plus interest. In the USA, LMI is taken out only for loans with Loan to Value Ratio (LVR) higher than 80 per cent at origination. Substantially all the Americas portfolio consists of Canadian mortgages. Included in the mortgage loan balance is \$10,774 million (2012: \$12,935 million) which have been securitised by consolidated SPEs. Further, \$5,863 million (2012: \$7,211 million) are held by either a government-backed securitisation vehicle or financial institutions, not consolidated by the Consolidated Entity.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 37.1

Credit risk continued

The tables below provide information on LVRs determined using current loan balances and the valuation at the time the mortgage was financed.

	2013		2012	
	Australia \$m	Americas \$m	Australia \$m	Americas \$m
Fully collateralised				
Loan to value ratio				
Less than 25%	452	22	451	27
25% to 50%	1,769	253	1,711	329
51% to 75%	4,069	1,234	3,838	1,479
76% to 90%	4,159	3,404	3,638	4,433
91% to 100%	1,098	2,420	903	2,666
Partly collateralised	33	1	45	1
Total mortgages	11,580	7,334	10,586	8,935

In the year ended 31 March 2013, Macquarie acquired residential mortgages in EMEA originated by other financial institutions that are secured by fixed charges over a borrower's property. Of the mortgage balance of \$472 million, \$266 million has a LVR of 50 per cent or less, \$116 million has a LVR of between 50 and 75 per cent and \$90 million has a LVR of between 75 and 100 per cent.

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Relationship Banking provides residential and commercial mortgages to clients in Australia, usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property. Of the mortgage balance of \$840 million (2012: \$1,151 million), \$103 million (2012: \$161 million) has a LVR of 50 per cent or less, \$532 million (2012: \$828 million) has a LVR of between 50 and 75 per cent and \$193 million (2012: \$140 million) has a LVR of between 75 and 100 per cent. \$12 million (2012: \$22 million) is partly secured with and LVR greater than 100 per cent.

Investment and insurance premium lending

Macquarie lends to clients for investment, and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the investments as collateral and obtains additional cash margin to maintain limits. Other investment lending is backed by cash deposits from the client. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. Of the investment and insurance premium lending portfolio of \$1,566 million (2012: \$1,812 million), \$1,472 million (2012: \$1,698 million) is fully collateralised.

Lease and retail financing

Macquarie leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying fixed assets are held by Macquarie as collateral. Of the lease and retail finance portfolio of \$9,387 million (2012: \$6,869 million), the credit exposure after considering the depreciated value of collateral is \$2,584 million (2012: \$2,061 million).

Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured rights over specified assets of the counterparty, often in the form of commercial property and land rights. Of the term lending of \$13,068 million (2012: \$11,302 million), the credit exposure after collateral and credit enhancements is \$2,474 million (2012: \$3,089 million).

Additional collateral

Macquarie excludes other types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

Trading portfolio assets

Certain trading portfolio assets related to debt securities are covered partly or fully by credit default swap (CDS) contracts, which protect the holder in the event of a default of the underlying security. The creditworthiness of the counterparty to the CDS is higher than that of the counterparty to the asset. Assets carried at \$nil million, (2012: \$510 million) are covered by CDS contracts with a notional of \$nil million (2012: \$451 million).

Other financial assets at fair value through profit or loss

Included in Other financial assets at fair value through profit or loss is financing provided to clients for investing, which had a carrying value at balance date of \$1,281 million (2012: \$2,241 million). This amount is fully secured by the underlying securities investments or cash deposits of the investors.

Derivative financial instruments

Exchange traded derivatives contracts have limited credit risk as counterparties have to be members of the exchange and demonstrate they have adequate resources to fulfill obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or stock, and provide daily variation margins usually in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. Macquarie has exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2013 of \$4,708 million (2012: \$8,909 million). Macquarie has also placed initial and variation cash margins with exchanges, the balance at 31 March 2013 being \$3,459 million (2012: \$1,740 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

For Over The Counter (OTC) derivative contracts, Macquarie often has master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. Master netting arrangements are generally insufficient to allow offset in the statement of financial position. However, the credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement

(e.g. derivatives and cash margins) to be terminated and settled on a net basis. Macquarie also often executes a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2013, Macquarie held OTC contracts with a positive replacement value of \$9,819 million (2012: \$12,935 million). Macquarie also held margins of \$1,555 million (2012: \$1,201 million) covering OTC contracts. The credit risk of these contracts is further reduced due to master netting agreements covering negative OTC contracts of \$5,287 million (2012: \$6,948 million), and collateral placed of \$2,043 million (2012: \$1,943 million).

Other assets

Security settlements of \$5,567 million (2012: \$7,180 million) are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). Macquarie holds the underlying equity security as collateral until settled, which is usually less than 3 days after trade.

Debt investments securities available for sale

Included in this balance are holdings of \$683 million (2012: \$1,403 million) issued by Australian banks which are subject to an Australian Government Guarantee. A further \$243 million (2012: \$438 million) is secured by specified Australian and Canadian assets under covered bonds.

Credit commitments and contingent liabilities

Of the Undrawn facilities and lending commitments of \$3,267 million (2012: \$4,289 million), \$1,591 million (2012: \$2,419 million) are fully secured by underlying specific assets.

Notes to the financial statements

for the financial year ended 31 March 2013

continued

Note 37.1

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 2013

	Neither past due nor impaired				Past due or individually impaired	Total
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m	\$m	\$m
Receivables from financial institutions	15,150	1,358	8	–	–	16,516
Trading portfolio assets						10,653
Governments	7,987	159	–	–	–	8,146
Financial institutions	1,042	401	55	–	–	1,498
Other	345	616	48	–	–	1,009
Derivative assets						14,704
Governments	365	3	–	–	–	368
Financial institutions	9,634	505	–	–	–	10,139
Other	2,690	1,507	–	–	–	4,197
Debt investment securities available for sale						13,901
Governments	3,528	–	–	–	–	3,528
Financial institutions	9,877	20	–	–	–	9,897
Other	134	340	–	–	2	476
Other financial assets						9,444
Governments	–	–	–	–	3	3
Financial institutions	–	–	–	–	37	37
Other	6,383	2,190	13	687	131	9,404
Loan assets held at amortised cost						49,083
Governments	236	7	–	–	–	243
Financial institutions	2,690	2,242	29	–	–	4,961
Other	20,975	20,727	289	–	1,888	43,879
Other financial assets at fair value through profit or loss						2,655
Governments	456	–	–	–	–	456
Financial institutions	816	88	–	–	–	904
Other	82	1,177	–	–	36	1,295
Total	82,390	31,340	442	687	2,097	116,956

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

Note 37.1

Credit risk continued

Credit quality – Consolidated 2012

	Neither past due nor impaired				Past due or individually impaired	Total
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m	\$m	\$m
Receivables from financial institutions	16,807	1,703	–	–	–	18,510
Trading portfolio assets						5,037
Governments	2,490	107	–	–	–	2,597
Financial institutions	957	290	7	–	–	1,254
Other	187	965	34	–	–	1,186
Derivative assets						22,078
Governments	438	14	–	–	–	452
Financial institutions	15,393	732	–	–	–	16,125
Other	2,588	2,913	–	–	–	5,501
Debt investment securities available for sale						15,810
Governments	3,111	–	–	–	–	3,111
Financial institutions	12,093	67	–	–	–	12,160
Other	65	473	–	–	1	539
Other financial assets						12,634
Governments	1,220	–	–	–	–	1,220
Financial institutions	–	–	–	–	36	36
Other	6,942	3,513	13	743	167	11,378
Loan assets held at amortised cost						45,218
Governments	94	9	–	–	–	103
Financial institutions	2,669	1,096	3	–	–	3,768
Other	21,553	17,932	228	–	1,634	41,347
Other financial assets at fair value through profit or loss						4,460
Governments	927	–	–	–	–	927
Financial institutions	1,822	3	–	–	–	1,825
Other	266	1,417	–	–	25	1,708
Total	89,622	31,234	285	743	1,863	123,747

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

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 37.1

Credit risk continued

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

Credit quality – Company 2013

	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						6
Other	3	–	–	3	–	6
Due from subsidiaries						6,992
Other	6,645	–	–	47	–	6,992
Total	6,648	–	–	50	–	6,998

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

Credit quality – Company 2012

	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						27
Governments	24	–	–	–	–	24
Other	3	–	–	–	–	3
Due from subsidiaries						7,317
Other	7,272	–	–	45	–	7,317
Total	7,299	–	–	45	–	7,344

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

Note 37.1

Credit risk continued

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

Class of financial asset	Past due but not impaired				Impaired \$m	Total \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m		
Debt investment securities available for sale						Consolidated 2013
Other	–	–	–	–	2	2
Other assets						
Government	2	1	–	–	–	3
Financial institutions	35	1	1	–	–	37
Other	80	15	11	–	25	131
Loan assets held at amortised cost						
Other	1,003	171	86	260	368	1,888
Other financial assets at fair value through profit or loss						
Other	9	3	4	–	20	36
Total	1,129	191	102	260	415	2,097
Debt investment securities available for sale						Consolidated 2012
Other	–	–	–	–	1	1
Other assets						
Financial institutions	34	2	–	–	–	36
Other	96	28	11	–	32	167
Loan assets held at amortised cost						
Other	772	189	73	243	357	1,634
Other financial assets at fair value through profit or loss						
Other	3	3	3	–	16	25
Total	905	222	87	243	406	1,863

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

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

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, \$1,229 million (2012: \$1,126 million) relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

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

Repossessed collateral

In the event of customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. As at 31 March 2013, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of \$210 million (2012: \$297 million). These assets are in the process of being sold.

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 37.2

Liquidity risk

Liquidity management

The Consolidated Entity's liquidity risk management framework ensures that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, MBL Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer and Business Group Heads.

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

Liquidity policy

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. 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 reduction in franchise businesses.

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

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. 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.

Scenario analysis

Scenario analysis is central to the Consolidated Entity's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of

this modelling is to ensure the Consolidated Entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

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

Liquid asset holdings

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

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions. The size of the liquid asset portfolio must exceed the minimum cash requirement as calculated in this model at all times.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Consolidated Entity and defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of 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.

Note 37.2

Liquidity risk continued

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the liquidity contingency plan contains a supplement providing the specific information required for those branches or subsidiaries.

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 business units that provide long term stable funding.

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
Consolidated 2013						
Trading portfolio liabilities	–	1,497	–	–	–	1,497
Derivative financial instruments (trading)	–	12,220	–	–	–	12,220
Derivative financial instruments (hedging relationship)	–	–	–	–	–	–
Contractual amounts payable	–	5,484	2,510	2,886	630	11,510
Contractual amounts receivable	–	(5,492)	(2,729)	(2,988)	(790)	(11,999)
Deposits	29,602	6,054	5,127	440	14	41,237
Other liabilities ⁽¹⁾	–	9,827	–	–	–	9,827
Payables to financial institutions	4,186	7,843	1,384	4,402	578	18,393
Other financial liabilities at fair value through profit or loss	1	639	488	571	26	1,725
Life investment contracts and other unitholder liabilities	–	7,218	–	–	–	7,218
Debt issued at amortised cost ⁽²⁾	–	6,431	7,488	17,778	15,419	47,116
Macquarie Convertible Preference Securities	–	633	–	–	–	633
Subordinated debt	–	86	133	1,209	1,996	3,424
Total undiscounted cash flows	33,789	52,440	14,401	24,298	17,873	142,801
Contingent liabilities	–	827	–	–	–	827
Commitments	–	3,642	238	236	–	4,116
Total undiscounted contingent liabilities and commitments⁽³⁾	–	4,469	238	236	–	4,943

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

⁽²⁾ Included in this balance is \$15,033 million (2012: \$19,459) payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in the maturity analysis.

⁽³⁾ Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 37.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
						Consolidated 2012
Trading portfolio liabilities	–	3,615	–	–	–	3,615
Derivative financial instruments (trading)	–	20,574	–	–	–	20,574
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	5,933	2,888	3,248	1,142	13,211
Contractual amounts receivable	–	(5,738)	(2,820)	(3,433)	(1,193)	(13,184)
Deposits	27,941	5,883	3,130	344	23	37,321
Other liabilities ⁽¹⁾	–	11,870	–	–	–	11,870
Payables to financial institutions	1,530	4,816	1,497	4,897	632	13,372
Other financial liabilities at fair value through profit or loss	8	721	956	1,013	91	2,789
Life investment contracts and other unitholder liabilities	–	5,897	–	–	–	5,897
Debt issued at amortised cost ⁽²⁾	–	7,673	4,486	21,706	15,894	49,759
Macquarie Convertible Preference Securities	–	33	33	631	–	697
Subordinated debt	–	326	111	1,268	2,198	3,903
Total undiscounted cash flows	29,479	61,603	10,281	29,674	18,787	149,824
Contingent liabilities	–	614	–	–	–	614
Commitments	–	4,632	692	–	–	5,324
Total undiscounted contingent liabilities and commitments⁽³⁾	–	5,246	692	–	–	5,938

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

(2) Included in this balance is \$19,459 million payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in the maturity analysis.

(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 37.2

Liquidity risk continued

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
Company 2013						
Deposits	–	38	–	–	–	38
Payables to financial institutions	–	14	44	2,484	–	2,542
Due to subsidiaries	511	88	–	–	–	599
Debt issued at amortised cost	–	142	240	2,278	2,867	5,527
Total undiscounted cash flows	511	282	284	4,762	2,867	8,706
Contingent liabilities	–	3,057	–	–	–	3,057
Total undiscounted contingent liabilities⁽¹⁾	–	3,057	–	–	–	3,057
Company 2012						
Deposits	–	50	–	–	–	50
Payables to financial institutions	–	–	915	2,482	–	3,397
Due to subsidiaries	909	164	–	–	–	1,073
Debt issued at amortised cost	–	233	188	1,957	3,570	5,948
Total undiscounted cash flows	909	447	1,103	4,439	3,570	10,468
Contingent liabilities	–	1,200	–	–	–	1,200
Total undiscounted contingent liabilities⁽¹⁾	–	1,200	–	–	–	1,200

⁽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 financial statements

for the financial year ended 31 March 2013

continued

Note 37.3

Market risk

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

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

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions; and
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

Value-at-Risk (VaR) figures (1-day, 99 per cent confidence level)

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

	2013 Average \$m	2013 Maximum \$m	2013 Minimum \$m	2012 Average \$m	2012 Maximum \$m	2012 Minimum \$m
						Consolidated
Equities	4.26	6.64	2.78	7.26	10.03	4.26
Interest rates	10.45	14.19	8.19	10.91	14.72	8.00
Foreign exchange and bullion	2.58	7.00	0.42	2.36	6.22	0.86
Commodities	10.02	16.95	6.35	9.53	15.11	6.41
Aggregate	14.95	20.44	10.94	14.99	19.57	11.07

Value-at-Risk

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

Interest rate risk

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

Note 37.3

Market risk continued

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 \$2 million (2012: \$3 million) respectively.

Foreign currency risk

The Consolidated Entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of its investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

In order to manage this risk, the Consolidated Entity has a policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian Accounting Standards and offset movements on the net assets within foreign operations and are transferred to the foreign currency translation reserve.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading divisions is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below.

The hedging policy of the Consolidated Entity is designed to reduce the sensitivity of the Consolidated Entity's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD, GBP, HKD and CAD.

	2013		2012	
	Movement in exchange rates %	Sensitivity of equity after tax \$m	Movement in exchange rates %	Sensitivity of equity after tax \$m
				Consolidated
Australian dollar	+10	(373.3)	+10	(366.5)
Australian dollar	-10	456.2	-10	447.9

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 37.3

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	2013			2012		
	Movement in equity price %	Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m	Movement in equity price %	Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m
Listed						Consolidated
Australia	+10	0.8	113.4	+10	1.5	99.8
Asia Pacific	+10	–	1.2	+10	–	0.9
Europe, Middle East and Africa	+10	2.9	1.5	+10	1.4	4.8
Americas	+10	–	37.7	+10	2.2	15.3
Unlisted	+10	0.8	61.6	+10	1.3	49.8
Listed						
Australia	–10	(0.7)	(113.4)	–10	(1.5)	(99.8)
Asia Pacific	–10	–	(1.2)	–10	–	(0.9)
Europe, Middle East and Africa	–10	(2.9)	(1.5)	–10	(0.4)	(4.8)
Americas	–10	–	(37.7)	–10	(0.1)	(15.3)
Unlisted	–10	(0.1)	(61.6)	–10	(0.6)	(49.8)

	Consolidated 2013			Consolidated 2012		
	Average balance \$m	Income/ (expense) \$m	Average rate %	Average balance \$m	Income/ (expense) \$m	Average rate %

Note 38

Average interest bearing assets and liabilities and related interest

Assets

Interest bearing assets

Receivables from financial institutions	15,587	313	2.0	16,934	394	2.3
Trading portfolio assets	7,183	278	3.9	8,967	313	3.5
Investment securities available for sale	16,150	604	3.7	15,586	838	5.4
Loan assets held at amortised cost	48,991	3,224	6.6	48,073	3,390	7.0
Other financial assets at fair value through profit or loss	3,187	203	6.4	6,574	418	6.3
Interest in associates and joint ventures accounted for using the equity method	279	27	9.8	286	15	5.6
Total interest bearing assets	91,377	4,649		96,420	5,368	
Total non-interest bearing assets	61,692			63,806		
Total assets	153,069			160,226		

Liabilities

Interest bearing liabilities

Trading portfolio liabilities	1,720	(58)	3.4	1,757	(63)	3.6
Deposits	39,703	(1,203)	3.0	37,378	(1,458)	3.9
Other liabilities	617	(3)	0.5	977	(6)	0.6
Payables to financial institutions	14,499	(437)	3.0	16,215	(603)	3.7
Other financial liabilities at fair value through profit or loss	1,525	(27)	1.8	4,423	(103)	2.3
Debt issued at amortised cost	39,925	(1,317)	3.3	40,028	(1,551)	3.9
Loan capital	2,990	(237)	7.9	3,444	(251)	7.3
Total interest bearing liabilities	100,979	(3,282)		104,222	(4,035)	
Total non-interest bearing liabilities	40,514			44,562		
Total liabilities	141,493			148,784		
Net assets	11,576			11,442		

Equity

Contributed equity	5,936			6,253		
Reserves	39			128		
Retained earnings	5,073			4,536		
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	11,048			10,917		
Non-controlling interest	528			525		
Total equity	11,576			11,442		

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 39

Fair values of financial assets and liabilities

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

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

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

- Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The 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.

Note 39

Fair values of financial assets and liabilities continued

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

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates;
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower;
- the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread;
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and
- in the financial statements of the Company, the fair value of balances due from/to subsidiaries is approximated by their carrying amount as the balances are generally receivable/payable on demand.

Notes to financial statements

for the financial year ended 31 March 2013

continued

	2013 Carrying value \$m	2013 Fair value \$m	2012 Carrying value \$m	2012 Fair value \$m
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Note 39

Fair values of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Company:

Assets				Consolidated
Receivables from financial institutions	16,516	16,516	18,510	18,510
Other financial assets	9,444	9,444	12,634	12,634
Loan assets held at amortised cost	49,083	49,656	45,218	45,655
Total assets	75,043	75,616	76,362	76,799

Liabilities				
Deposits	41,103	41,116	37,169	37,164
Other financial liabilities	9,827	9,827	11,870	11,870
Payables to financial institutions	18,075	18,143	12,629	12,444
Debt issued at amortised cost	38,014	38,884	39,713	39,469
Loan capital at amortised cost	3,220	3,353	3,193	3,180
Total liabilities	110,239	111,323	104,574	104,127

Assets				Company
Other financial assets	6	6	27	27
Due from subsidiaries	6,992	6,992	7,317	7,317
Total assets	6,998	6,998	7,344	7,344

Liabilities				
Deposits	38	38	50	50
Payables to financial institutions	2,370	2,396	3,178	2,985
Due to subsidiaries	828	828	1,072	1,072
Debt issued at amortised cost	4,269	4,662	4,459	4,409
Total liabilities	7,505	7,924	8,759	8,516

Note 39

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets				Consolidated 2013
Trading portfolio assets	14,085	5,369	322	19,776
Derivative assets	2,276	12,360	68	14,704
Investment securities available for sale	13,122	3,191	744	17,057
Other financial assets at fair value through profit or loss	1,168	3,796	69	5,033
Life investment contracts and other unitholder investment assets	2,278	4,962	–	7,240
Total assets	32,929	29,678	1,203	63,810
Liabilities				
Trading portfolio liabilities	548	949	–	1,497
Derivative liabilities	2,397	12,411	45	14,853
Other financial liabilities at fair value through profit or loss	–	1,634	70	1,704
Life investment contracts and other unitholder liabilities	2,285	4,933	–	7,218
Subordinated debt at fair value through profit or loss	–	–	–	–
Total liabilities	5,230	19,927	115	25,272
Assets				Consolidated 2012
Trading portfolio assets	7,901	4,336	452	12,689
Derivative assets	4,726	17,214	138	22,078
Investment securities available for sale	15,775	1,938	553	18,266
Other financial assets at fair value through profit or loss	2,033	4,512	170	6,715
Life investment contracts and other unitholder investment assets	1,406	4,498	–	5,904
Total assets	31,841	32,498	1,313	65,652
Liabilities				
Trading portfolio liabilities	2,496	1,119	–	3,615
Derivative liabilities	4,229	16,697	96	21,022
Other financial liabilities at fair value through profit or loss	8	2,615	110	2,733
Life investment contracts and other unitholder liabilities	1,412	4,485	–	5,897
Subordinated debt at fair value through profit or loss	–	150	–	150
Total liabilities	8,145	25,066	206	33,417

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 39

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial years ended 31 March 2013 and 31 March 2012:

	Trading portfolio assets \$m	Investment securities available for sale \$m
Balance at the beginning of the financial year	452	553
Purchases	298	196
Sales	(379)	(95)
Issues	–	–
Settlements	–	–
Net transfers (out of)/into level 3	(69)	68
Fair value gains/(losses) recognised in the income statement ⁽¹⁾	20	(13)
Fair value gains recognised in other comprehensive income ⁽¹⁾	–	35
Balance at the end of the financial year	322	744
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year ⁽¹⁾	28	(5)
Balance at the beginning of the financial year	489	
Purchases	355	192
Sales	(369)	(78)
Issues	–	–
Settlements	–	(37)
Net transfers into/out of Level 3	(16)	(89)
Fair value (losses)/gains recognised in the income statement ⁽¹⁾	(7)	(33)
Fair value gains recognised in other comprehensive income ⁽¹⁾	–	4
Balance at the end of the financial year	452	553
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year ⁽¹⁾	8	(13)

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

⁽²⁾ The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are \$68 million (2012: \$138 million) and derivative liabilities are \$45 million (2012: \$96 million).

Other financial assets at fair value through profit or loss \$m	Other financial liabilities at fair value through profit or loss \$m	Derivative financial instruments (net replacement values) ⁽²⁾ \$m	Total \$m
Consolidated 2013			
170	(110)	42	1,107
-	-	13	507
(86)	-	(11)	(571)
-	-	(9)	(9)
(10)	40	4	34
(3)	1	(32)	(35)
(2)	(1)	16	20
-	-	-	35
69	(70)	23	1,088
2	(2)	9	32
Consolidated 2012			
291	(152)	64	1,286
1	-	6	554
(55)	16	(13)	(499)
-	(1)	(19)	(20)
(12)	37	(54)	(66)
16	(8)	32	(65)
(71)	(2)	26	(87)
-	-	-	4
170	(110)	42	1,107
(38)	4	1	(38)

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 39

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

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

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

Unrecognised gains

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

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

	Consolidated 2013 \$m	Consolidated 2012 \$m
Balance at the beginning of the financial year	15	27
Deferral on new transactions	26	22
Amounts recognised in the income statement during the year	(9)	(34)
Balance at the end of the financial year	32	15

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques, such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
Product type			Consolidated 2013	
Equity and equity linked products	17	69	(17)	(50)
Commodity products	8	–	(5)	–
Credit products	6	–	(6)	–
Interest rate products	14	–	(14)	–
Total	45	69	(42)	(50)
Product type			Consolidated 2012	
Equity and equity linked products	21	52	(24)	(30)
Commodity products	16	–	(15)	–
Credit products	2	–	(2)	–
Interest rate products	6	–	(6)	–
Total	45	52	(47)	(30)

Note 40

Transfers of financial assets

Transferred financial assets that are derecognised

The Consolidated Entity may enter into transactions in the normal course of business that transfer financial assets to other entities. When the financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. There were no material transfers of financial assets where the Consolidated Entity or Company retained continuing involvement.

Transferred financial assets that are not derecognised

When financial assets are transferred but not derecognised, this is due to retaining exposure to substantially all the risks and rewards of ownership of the transferred assets through repurchase and securities lending agreements or asset swaps.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be

recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the required collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal rights to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

Written put option

When financial assets are transferred but continue to be recognised to the extent of continuing involvement, this is due to some but not substantially all of the risks and rewards of ownership being transferred, and control of the asset being retained. Examples of such transactions include transfers involving written put options or other instruments linked to the performance of the asset.

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 40

Transfers of financial assets continued

There were no material transfers of financial assets for the Company where the assets continue to be recognised as at 31 March 2013 and at 31 March 2012. The following table presents information for transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2013 and 31 March 2012:

	Repurchase and securities lending agreements \$m	Asset swaps \$m	Written put option \$m
Consolidated 2013			
Carrying amount of transferred assets ^{(1),(2)}	7,744	7,822	829
Carrying amount of associated liabilities ⁽²⁾	(7,600)	(7,299)	(836)
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement	–	–	828
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	461	5,990	837
Fair value of associated liabilities	(436)	(6,090)	(847)
Net fair value	25	(100)	(10)
Consolidated 2012			
Carrying amount of transferred assets ^{(1),(2)}	2,629	8,911	1,014
Carrying amount of associated liabilities ⁽²⁾	(2,616)	(8,294)	(1,023)
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement	–	–	1,013
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	344	7,738	1,061
Fair value of associated liabilities	(320)	(7,636)	(1,023)
Net fair value	24	102	38

⁽¹⁾ The transferred financial assets are presented in Trading portfolio assets \$7,091 million (2012: \$2,526 million), Investment securities available for sale \$1,299 million (2012: \$1,043 million) and Loan assets held at amortised cost \$8,005 million (2012: \$8,985 million) in the statement of financial position.

⁽²⁾ As a result of an asset swap, included in the carrying amount of associated liabilities is \$749 million (2012: nil) that will be settled partly by the transferred assets with a carrying amount of \$749 million (2012: nil). The Consolidated Entity has provided a guarantee to the extent of \$358 million, and has given \$358 million cash collateral to the counterparty that has been set off against the associated liability. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

Note 41

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 2013 \$'000	Consolidated 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
PwC – Australia				
Audit and review of financial reports of the Group or controlled entity	8,157	6,761	–	–
Other audit-related work	747	1,484	–	–
Other assurance services	2,881	1,533	–	–
Total audit and other assurance services	11,785	9,778	–	–
Other advisory services	13	111	–	–
Taxation	423	773	–	–
Total remuneration paid to PwC Australia	12,221	10,662	–	–
Network firms of PwC Australia				
Audit and review of financial reports of the Group or controlled entity	9,704	10,611	–	–
Other audit-related work	225	49	–	–
Other assurance services	327	121	–	–
Total audit and other assurance services	10,256	10,781	–	–
Other advisory services	–	10	–	–
Taxation	1,271	1,679	–	–
Total remuneration paid to network firms of PwC Australia	11,527	12,470	–	–
Total remuneration paid to PwC (note 2)	23,748	23,132	–	–

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

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

It is the Company's policy to seek competitive tenders for all major advisory projects.

Notes to financial statements

for the financial year ended 31 March 2013

continued

Note 42

Acquisitions and disposals of subsidiaries and businesses

Significant entities and businesses acquired or consolidated due to acquisition of control:

Macquarie European Rail

On 4 January 2013, a subsidiary of the Company acquired a new business, a European rolling stock leasing business.

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

Reverse Mortgage Services Pty Limited, L2 B.V., Adreca Holding Corp. and Tulare I PV LLC.

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

	2013 \$m	2012 \$m
Fair value of net assets acquired		
Cash and other assets	48	104
Other financial assets	370	60
Property, plant and equipment	669	454
Goodwill and other intangible assets	9	78
Payables, provisions, borrowings and other liabilities	(331)	(185)
Non-controlling interests	–	(2)
Total fair value of net assets acquired	765	509
Consideration		
Cash consideration	765	476
Deferred consideration	–	6
Fair value of previously held interest	–	27
Total consideration	765	509
Net cash flow		
Cash consideration	(765)	(476)
Less:		
Cash and cash equivalents acquired	5	25
Net cash outflow	(760)	(451)

The operating results of the acquisitions have not had a material impact on the results of the Consolidated Entity.

Included in the current financial year results for the Consolidated Entity is profit of \$3 million and revenue of \$14 million from Macquarie European Rail since the date of acquisition. If this acquisition had taken place on 1 April 2012, the impact on the current year results for the Consolidated Entity would have been profit of \$27 million and revenue of \$54 million. The operating results of the remaining acquisitions have not had a material impact on the results of the Consolidated Entity.

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above. The goodwill acquired during the current financial year has arisen due to the value of the businesses acquired over their individual asset values and synergies the Consolidated Entity expects to realise from the acquisitions.

The 31 March 2012 comparatives principally relate to Utility Metering Services Limited, being the significant entity and businesses acquired or consolidated due to acquisition of control.

Note 42

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities and businesses disposed of or deconsolidated due to loss of control:

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

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

Macquarie Premium Funding Inc., Coin Software Pty Limited, Macquarie Technology Services Pty Limited, Macquarie Emerging Markets Infrastructure Securities Fund, American Water Heater Rentals, Adreca Holding Corp., Rismark International Funds Management Trust and Ares Capital Management Trust.

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

	2013 \$m	2012 \$m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash and other assets	36	25
Other financial assets	223	72
Property, plant and equipment	23	61
Goodwill and other intangible assets	78	23
Payables, provisions, borrowings and other liabilities	(144)	(92)
Non-controlling interest	(1)	–
Total carrying value of assets and liabilities disposed of or deconsolidated	215	89
Consideration		
Cash consideration	218	116
Consideration received in equity	–	40
Deferred consideration	3	–
Total consideration	221	156
Net cash flow		
Cash consideration	218	116
Less:		
Investment retained	(18)	–
Cash and cash equivalents disposed of or deconsolidated	(9)	(4)
Net cash inflow	191	112

There were no significant entities or businesses disposed of or deconsolidated due to loss of control in the year ended 31 March 2012 comparatives.

Note 43

Events after the reporting period

There were no material events subsequent to 31 March 2013 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 89 to 201 are in accordance with the *Corporations Act 2001 (Cth)* including:
 - (i) complying with the accounting standards; and
 - (ii) giving a true and fair view of the Company and Consolidated Entity's financial position as at 31 March 2013 and performance for the financial year ended on that date; and
- b) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable; and
- c) the financial statements also comply with International Financial Reporting Standards (see note 1(i) set out on page 96).

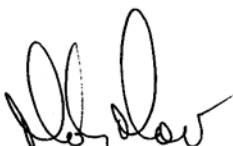
The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001 (Cth)*.

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



H Kevin McCann AM

Independent Director and
Chairman



Nicholas Moore

Managing Director and
Chief Executive Officer

Sydney
3 May 2013

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 2013, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001 (Cth)* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001 (Cth)*.

Auditor's opinion

In our opinion:

- a) the financial report of Macquarie 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 2013 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Independent audit report

To the members of Macquarie Group Limited

continued



Report on the Remuneration Report

We have audited the Remuneration Report included in pages 41 to 78 of the directors' report for the year ended 31 March 2013. 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 2013, complies with section 300A of the *Corporations Act 2001 (Cth)*.

A stylized, handwritten signature of the PricewaterhouseCoopers firm, written in a cursive script.

PricewaterhouseCoopers

A stylized, handwritten signature of DH Armstrong, written in a cursive script.

DH Armstrong

Partner

Sydney

3 May 2013

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 each end of reporting date. The financial information for the full years ended 31 March 2005–2013 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	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Income statement (\$ million)										
Total income	2,823	4,197	4,832	7,181	8,248	5,526	6,638	7,665	6,963	6,700
Total expenses	(2,138)	(3,039)	(3,545)	(5,253)	(6,043)	(4,537)	(5,344)	(6,394)	(5,914)	(5,295)
Operating profit before income tax	685	1,158	1,287	1,928	2,205	989	1,294	1,271	1,049	1,405
Income tax expense	(161)	(288)	(290)	(377)	(317)	(15)	(201)	(282)	(287)	(533)
Profit for the year	524	870	997	1,551	1,888	974	1,093	989	762	872
Macquarie Income Securities distributions	(27)	(29)	(29)	(31)	(34)	(33)	(21)	(26)	(26)	(21)
Macquarie Income Preferred Securities distributions	–	(28)	(51)	(54)	(50)	(45)	(8)	(4)	(4)	(4)
Other non-controlling interests	(3)	(1)	(1)	(3)	(1)	(25)	(14)	(3)	(2)	4
Profit attributable to ordinary equity holders	494	812	916	1,463	1,803	871	1,050	956	730	851
Statement of financial position (\$ million)										
Total assets	43,771	67,980	106,211	136,389	167,250	149,144	145,940	157,568	153,626	150,778
Total liabilities	40,938	63,555	100,874	128,870	157,189	139,584	134,171	145,636	141,894	138,830
Net assets	2,833	4,425	5,337	7,519	10,061	9,560	11,769	11,932	11,732	11,948
Total loan assets	10,777	28,425	34,999	45,796	52,407	44,751	44,267	46,016	45,218	49,083
Impaired loan assets (net of provisions)	61	42	85	88	165	952	647	377	405	430
Share information⁽¹⁾										
Cash dividends per share (cents per share)										
Interim	52	61	90	125	145	145	86	86	65	75
Final	70	100	125	190	200	40	100	100	75	125
Special	–	40	–	–	–	–	–	–	–	–
Total	122	201	215	315	345	185	186	186	140	200
Basic earnings per share (cents per share)	233.0	369.6	400.3	591.6	670.6	309.6	320.2	282.5	210.1	251.2
Share price at 31 March (\$) ⁽¹⁾	35.80	48.03	64.68	82.75	52.82	27.05	47.25	36.60	29.08	37.15
Ordinary share capital (million shares)	215.9	223.7	232.4	253.9	274.6	283.4	344.2	346.8	348.6	339.5
Market capitalisation at 31 March										
(fully paid ordinary shares) (\$ million) ⁽¹⁾	7,729	10,744	15,032	21,010	14,504	7,666	16,266	12,693	10,137	12,613
Net tangible assets per ordinary share (\$)	9.66	14.02	16.99	24.35	30.35	27.89	28.40	28.91	28.12	29.92
Ratios (%)										
Return on average ordinary shareholders' funds	22.3	29.8	26.0	28.1	23.7	9.9	10.1	8.8	6.8	7.8
Dividend payout ratio	53.2	53.2	54.4	54.3	52.2	60.2	60.4	67.3	66.4	79.0
Expense/income ratio	75.7	72.4	73.4	73.2	73.3	82.1	80.5	83.4	84.9	79.0
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)										
	0.3	0.2	0.2	0.1	0.3	1.9	0.8	0.4	0.5	0.4
Assets under management (\$ billion)⁽²⁾										
	62.6	96.7	140.3	197.2	232.0	243.1	325.7	309.8	326.9	347.4
Staff numbers	5,716	6,556	8,183	10,023	13,107	12,716	14,657	15,556	14,202	13,663

⁽¹⁾ The MBL (now MGL) ordinary shares were quoted on the Australian Stock Exchange (now Australian Securities Exchange) on 29 July 1996.

⁽²⁾ 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.

Additional Investor Information

2013 Shareholder calendar

Date	Event
3 May	Full-year result announcement
17 May	Record date for final ordinary dividend
2 July	Payment date of final ordinary dividend
25 July	2013 Annual General Meeting
30 September	Financial half-year end
1 November ⁽¹⁾	Half-year result announcement
15 November ⁽¹⁾	Record date for interim ordinary dividend
12 December ⁽¹⁾	Payment date of interim ordinary dividend

2013 Annual General Meeting (AGM)

Macquarie Group's 2013 AGM will be held at 10:30 am on Thursday 25 July 2013 at the Grand Hyatt Melbourne (Savoy Ballroom), 123 Collins Street, Melbourne, VIC. Details of the business of the meeting will be forwarded to shareholders separately.

Stock Exchange listing

Macquarie Group Limited is listed on the Australian Securities Exchange (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 Income Securities are listed on the ASX and trade under the code MBLHB.

Macquarie Preferred Membership Interests are listed on the Singapore Stock Exchange and trade under the stock code 40RB.

Macquarie Exchangeable Capital Securities are listed on the Singapore Stock Exchange and trade under the stock code 2AQB.

Macquarie Group also has debt securities quoted on the London Stock Exchange.

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 2013 dividends are as follows:

Dividend announcement date	Record date	Proposed payment date
3 May 2013	17 May 2013	2 July 2013
1 Nov 2013 ⁽¹⁾	15 Nov 2013 ⁽¹⁾	12 Dec 2013 ⁽¹⁾

Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie shares rather than receiving dividends in cash.

American Depositary Receipt (ADR) program

Macquarie ADRs are negotiable certificates issued by 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 exchange and are only traded over-the-counter via brokers. BNY Mellon:

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.

⁽¹⁾ These dates are subject to change.

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/dafiles/Internet/mgl/shared/au-com/about/profile/docs/mgl-constitution-final-september.pdf

Macquarie Convertible Preference Securities (Macquarie CPS)

Macquarie CPS may convert into a variable number of ordinary shares on 1 July 2013 or at other times, subject to various conditions. Holders of Macquarie CPS have no voting rights in respect of Macquarie Group Limited prior to conversion.

Macquarie Preferred Membership Interests (PMIs)

PMIs may be exchanged for preference shares in Macquarie Group Limited under certain circumstances. Prior to exchange, PMI holders have no voting rights in respect of Macquarie Group Limited (MGL). 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
 - (ii) that affects the rights attached to the Preference Shares
 - (iii) to wind up MGL
 - (iv) for the disposal of the whole of the property, business and undertaking of MGL
- (b) on any resolution to approve the terms of a share buyback agreement
- (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.

Macquarie Exchangeable Capital Securities (Macquarie ECS)

Macquarie ECS may convert into a variable number of ordinary shares on 20 June 2017 or at other times, subject to various conditions. Holders of Macquarie ECS have no voting rights in respect of Macquarie Group Limited prior to conversion.

Macquarie Income Securities

Holders of Macquarie Income Securities, as holders of a stapled security that includes a preference share issued by Macquarie Bank, have limited voting rights in respect of Macquarie Bank Limited, and no voting rights in respect of Macquarie Group Limited.

Macquarie Income Preferred Securities

Unpaid preference shares were issued by Macquarie Bank as part of the Macquarie Income Preferred Securities issue. Holders have no voting rights in Macquarie Bank Limited prior to the preference shares becoming paid-up and no rights in respect of Macquarie Group Limited.

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 VIC 8060 Australia

Telephone (within Australia): 1300 554 096
Telephone (international) +61 3 9415 4137
Facsimile: +61 3 9473 2500

Website: www.investorcentre.com/contact

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 NSW 2000 Australia

Telephone: +61 2 8232 5006
Facsimile: +61 2 8232 4330

Email: macquarie.shareholders@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 Annual Review, the Interim and Annual Reports, presentations, dividend information and other investor information, visit macquarie.com.au/investorrelations

Additional Investor Information

continued

Fully paid ordinary shares

Twenty largest ordinary shareholders at 22 April 2013:	Ordinary Shares	Percentage of Ordinary Shares
HSBC Custody Nominees (Australia) Limited	65,620,516	19.33
JP Morgan Nominees Australia Limited	57,223,999	16.86
National Nominees Limited	43,623,319	12.85
Bond Street Custodians Limited - MEREP Trustee - RSU Allocated	24,803,421	7.31
Citicorp Nominees Pty Limited	15,451,829	4.55
Citicorp Nominees Pty Limited - Colonial First State Inv A/C	9,979,253	2.94
BNP Paribas Noms Pty Ltd - DRP	9,284,818	2.73
Bond Street Custodians Limited - MEREP Trustee - Unallocated	4,423,985	1.30
JP Morgan Nominees Australia Limited - Cash Income A/C	3,661,062	1.08
AMP Life Limited	3,182,809	0.94
Argo Investments Limited	2,545,247	0.75
QIC Limited	1,559,356	0.46
HSBC Custody Nominees (Australia) Limited - NT-Commonwealth Super Corp A/C	1,522,817	0.45
BNP Paribas Nominees Pty Ltd - Agency Lending DRP A/C	1,090,709	0.32
UBS Wealth Management Australia Nominees Pty Ltd	582,637	0.17
EG Holdings Pty Ltd	550,000	0.16
Ramea Holdings Pty Ltd	501,702	0.15
Milton Corporation Limited	494,118	0.15
Mr Nicholas Moore	486,970	0.14
Gordon Merchant No 2 Pty Ltd - Merchant Family A/C	472,441	0.14
Total	247,061,008	72.77

Substantial shareholders

At 22 April 2013 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	36,768,337	6 June 2012

Details of the spread of ordinary shareholdings at 22 April 2013 are as follows:

Range	Shareholders	Shares
1 - 1,000	83,203	26,308,772
1,001 - 5,000	17,168	32,884,849
5,001 - 10,000	1,166	8,017,525
10,001 - 100,000	636	15,026,709
100,001 shares and over	71	257,268,723
Total	102,244	339,506,578

4,163 shareholders (representing 22,420 fully paid shares) held less than a marketable parcel.

On-market buy-back

There is a current on-market buy-back of Macquarie Shares.

Unlisted securities

- All 8,766,475 options on issue at 22 April 2013 are held by participants in the Group's Employee Option Plan.
- 165,805 exchangeable shares on issue at 22 April 2013 are held by former 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.
- 427,106 exchangeable shares on issue at 22 April 2013 are held by former 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 expire in August 2019 and carry no Macquarie Group Limited voting rights. There are a further 11,295 exchangeable shares on issue, resulting from the exercise of retention options previously held under retention agreements with key former Tristone employees.
- As at 22 April 2013, 8,666,860 Deferred Share Units and 9,938,788 Performance Share Units are held by participants in the Macquarie Group Employee Retained Equity Plan.

Convertible Preference Securities

	Convertible Preference Securities	Percentage of Convertible Preference Securities
Twenty largest Securityholders at 22 April 2013:		
Questor Financial Services Limited - TPS RF A/C	210,875	3.51
UBS Nominees Pty Ltd	160,226	2.67
HSBC Custody Nominees (Australia) Limited - A/C 2	152,314	2.54
National Nominees Limited	136,125	2.27
Navigator Australia Ltd - MLC Investment Sett A/C	119,220	1.99
JP Morgan Nominees Australia Limited	96,981	1.62
UBS Wealth Management Australia Nominees Pty Ltd	88,390	1.47
Nulis Nominees (Australia) Limited - Navigator Mast Plan Sett A/C	84,892	1.41
HSBC Custody Nominees (Australia) Limited	71,250	1.19
Citicorp Nominees Pty Limited	61,958	1.03
BNP Paribas Nominees Pty Ltd ACF Pengana - DRP A/C	61,000	1.02
JMB Pty Limited	50,000	0.83
BNP Paribas Noms Pty Ltd - DRP	45,642	0.76
M F Custodians Ltd	45,515	0.76
BT Portfolio Services Limited - Pratt Property Group P/L A/C	35,263	0.59
Mutual Trust Pty Ltd	33,674	0.56
RBC Investor Services Australia Nominees Pty Limited - NMSMT A/C	32,473	0.54
Namrog Investments Pty Ltd	30,000	0.50
Merrill Lynch (Australia) Nominees Pty Limited	25,411	0.42
Mr Lesley Szekely + Mrs Suzaner Szekely + Ms Rachel Szekely + Mr Daniel Szekely - The Szekely Super Fund A/C	25,000	0.42
Total	1,566,209	26.10

Additional Investor Information

continued

Details of the spread of Convertible Preference Securities holdings at 22 April 2013 were as follows:

Range	Securityholders	Securities
1 - 1,000	7,863	2,456,529
1,001 - 5,000	606	1,288,239
5,001 - 10,000	51	371,119
10,001 - 100,000	33	1,105,353
100,001 securities and over	5	778,760
Total	8,558	6,000,000

3 securityholders (representing 6 Convertible Preference Securities) held less than a marketable parcel.

Macquarie Preferred Membership Interests

As at 22 April 2013, 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.

Macquarie Exchangeable Capital Securities

As at 22 April 2013, the US\$250 million exchangeable capital securities, issued by Macquarie Bank Limited acting through its London branch, were held by one holder, BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch as common depository for Euroclear Bank S.A. / N.V. and Clearstream Banking *société anonyme*. The register in respect of the exchangeable capital securities is kept by Deutsche Bank Luxembourg S.A, as the Registrar for the exchangeable capital securities.

Independent review of selected Subject Matter contained in Macquarie Group Limited's 2013 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) 2013 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 2013 (the reporting period):

- a) total electricity consumed from MGL's corporate offices and data centres around the world
- b) total electricity indirect emissions (Scope 2) from MGL's corporate offices and data centres around the world
- c) scope 3 emissions associated with short, medium and long-haul flights procured by MGL
- d) management's assertion that carbon offsets have been purchased and retired for the 2013 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 one 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.

Sustainability Appendix

Independent review

continued

3.2.1.2 Total electricity consumed

Approximately 81 per cent of the electricity data for the reporting period was obtained directly from actual tenancy or building data. The remaining 19 per cent of energy consumption was estimated by either:

- where invoiced data existed for an office for part of the reporting period, determining monthly electricity consumed for that part of the reporting period and extrapolating this out to the remainder of the reporting period for that office
- where historical data exists for the office this is used to estimate the electricity consumed for the reporting period
- 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	Schedule 1 from the <i>National Greenhouse and Energy Reporting (Measurement) Determination 2008</i> for the calculation of greenhouse gas (GHG) emissions.
United Kingdom offices	The rolling average electricity emission factor as published in the Defra 2008: <i>Guidelines to Defra's GHG conversion factors for company reporting</i> .
United States offices	The Climate Registry Information System (CRIS) (2007)
Offices in other locations	GHG Protocol (2008) developed by the World Business Council for Sustainable Development and the World Resource Institute, tool 2.0
Air travel	Business Travel Service Sector v2 (GHG Protocol 2004). 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 registered under the international Gold Standard issued by the Gold Standard Foundation, Voluntary Carbon Standard issued by the VCS Association or US Climate Action Reserve protocol.

Sustainability Appendix

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 2013

We have been engaged to provide limited assurance on selected subject matter (the **selected Subject Matter**) presented in the Sustainability Report section of Macquarie Group Limited's (MGL) Annual Report (the **Annual Report**) for the 12 months ending 31 March 2013 (the **period**), in accordance with the basis of preparation (the **Reporting Criteria**) set out on pages 211 and 212 in the Annual Report.

The selected subject matter

The selected Subject Matter was chosen by MGL and comprises:

- total electricity consumed from MGL's corporate offices and data centres around the world (TJ)
- total electricity indirect emissions (Scope 2) from MGL's corporate offices and data centres around the world (tCO₂-e)
- total scope 3 emissions associated with short, medium and long-haul flights procured by MGL (tCO₂-e)
- 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 b) and c) 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 Report 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 Auditing and Assurance standard ASAE 3410 "Assurance Engagements on Greenhouse Gas Statements" (ASAE 3410) issued by the Australian Auditing and Assurance Standards Board. Our procedures primarily consisted of:

- enquiries of management
- analytical procedures
- substantive testing of sample data to source information
- re-performance of calculations
- 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.

Sustainability Appendix

Independent limited assurance report

continued

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 2013 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

PricewaterhouseCoopers

PricewaterhouseCoopers Australia
by

John Tomac

John Tomac
Partner
Sustainability & Climate Change
01 May 2013

Glossary

AASB	Australian Accounting Standards Board
the Act	<i>Corporations Act 2001 (Cth)</i>
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
AMA	Advanced Measurement Approach
Annual Financial Report	One component of Macquarie Group Limited's 2012 Annual Report which contains the Corporate Governance Statement, Diversity Report, Sustainability Report, Risk Report and Financial Report
Annual Review	One component of Macquarie Group Limited's 2012 Annual Report which contains key financial details, the Chairman and Managing Directors' Report and information about Macquarie's operating Groups and Divisions
ANZ	Australia and New Zealand
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
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 Markets Association's bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR etc
BGCC	Board Governance and Compliance Committee
the Board	the Board of Voting Directors of Macquarie Group Limited
BRC	Board Remuneration Committee
CAGR	compound annual growth rate
CAMAC	Corporations and Markets Advisory Committee
CDP	Carbon Disclosure Project
CET1	Common Equity Tier 1
CEO	Chief Executive Officer
CFO	Chief Financial Officer
the Company	Macquarie Group Limited
the Consolidated Entity	Macquarie Group Limited and its subsidiaries
CRO	Chief Risk Officer
CVA	credit valuation adjustments
Directors	the Voting Directors of Macquarie Group Limited (unless the context indicates otherwise)
DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
EMEA	Europe, Middle East and Africa
Environmental Management Plan (EMP)	Macquarie's internal framework of actions and targets to manage and reduce the environmental impact of its direct operations. The Plan covers Macquarie's corporate offices and associated corporate activities such as travel and procurement
EPS	earnings per share
ERL	Equity Risk Limit
ESP	Macquarie Group Employee Share Plan
ESG	Environmental, Social and Governance
Executive Key Management Personnel – (Executive KMP)	Members of the Executive Committee of Macquarie Group Limited
FIRB	Foundation Internal Ratings Based Approach
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards

Glossary

continued

Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of Macquarie Group Limited
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board, the Board	the Board of Voting Directors of Macquarie Group Limited
Macquarie CPS	Macquarie Convertible Preference Securities
Macquarie ECS, ECS	Macquarie Exchangeable Capital Securities
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie PMI	Macquarie Preferred Membership Interests
Malus	the discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement
MBEDSAP	Macquarie Bank Executive Director Share Acquisition Plan
MBL	Macquarie Bank Limited
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
NOHC	non-operating holding company
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MFG and FICC that use certain offshore regulated entities of the Non-Banking Group
NPAT	net profit after tax
OECD	Organisation for Economic Co-operation and Development
Operating Groups	the Operating Groups consist of BFS, CAF, FICC, Macquarie Capital, MFG and MSG
ORMF	Operational Risk Management Framework
OTC	over-the-counter
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
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
SPE	Special Purpose Entity
tCO ₂ -e (Carbon dioxide equivalent in tonnes)	metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (US Environment Protection Agency)
TJ	terajoules
TSR	total shareholder return
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Group Limited as defined in the MGL Constitution
WHS	Work Health and Safety

CONTACT DETAILS

Macquarie Group Head Office
No.1 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office
Macquarie Group Limited
Level 7, No.1 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Fax: +61 2 8232 4330

macquarie.com.au

