



2014 Annual Report

Macquarie Bank

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

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

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

2014 Annual General Meeting

Macquarie Bank’s 2014 Annual General Meeting will be held on Thursday 24 July 2014 in the Macquarie Auditorium, Level 3, No.1 Martin Place, Sydney, NSW 2000 after the Macquarie Group Limited Annual General Meeting, but not earlier than 2:00pm.

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

Macquarie Bank Limited

2014 Annual Report

Directors' Report	2
– Remuneration Report	7
– Schedule 1	32
– Schedule 2	37
Financial Report	38
– Income Statements	39
– Statements of comprehensive income	40
– Statements of financial position	41
– Statements of changes in equity	42
– Statements of cash flows	44
– Notes to the financial statements	46
– Directors' declaration	158
– Independent auditor's report	159
Investor information	160
Glossary	163

Directors' Report

for the financial year ended 31 March 2014

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

Directors

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

Independent Directors

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

Executive Directors

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

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

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

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

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

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

Meeting Attendance

Directors' meetings

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

Board meetings

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

Board Committee meetings

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

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

Directors' Report

for the financial year ended 31 March 2014

continued

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

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

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

Principal activities

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

Result

The financial report for the financial years ended 31 March 2014 and 31 March 2013, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2014 was \$A752 million (2013: \$A650 million).

Dividends and distributions

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

Security	Payment date	Payment type	\$A	In respect of financial year ended/period	
Ordinary shares	6 May 2013	Final Dividend	130,000,000	31 March 2013	Paid
	5 November 2013	Interim Dividend	280,000,000	31 March 2014	Paid
Macquarie Income Securities ⁽¹⁾	15 April 2013	Periodic	4,694,793	15 January 2013 to 14 April 2013	Paid
	15 July 2013	Periodic	4,736,984	15 April 2013 to 14 July 2013	Paid
	15 October 2013	Periodic	4,486,574	15 July 2013 to 14 October 2013	Paid
	15 January 2014	Periodic	4,315,181	15 October 2013 to 14 January 2014	Paid
	15 April 2014	Periodic	3,623,014	15 January 2014 to 31 March 2014	Provided
Macquarie Income Preferred Securities ⁽²⁾	15 April 2013	Periodic	1,995,778	16 October 2012 to 15 April 2013	Paid
	15 October 2013	Periodic	2,129,916	16 April 2013 to 15 October 2013	Paid
	15 April 2014	Periodic	2,175,849	16 October 2013 to 31 March 2014	Provided

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

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

State of affairs

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

Review of operations and financial position

Consolidated net profit attributable to ordinary equity holders of \$A752 million for the year ended 31 March 2014 increased 16 per cent from \$A650 million in the prior year.

Macquarie Bank's annuity style businesses – Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services – continued to perform well, generating a combined net profit contribution for the year ended 31 March 2014 of \$A1,549 million, an increase of 23 per cent on the prior year.

The depreciation of the Australian dollar relative to the prior year was a significant contributor to the improved performance of Macquarie Funds, driving increased base fee income, and Corporate and Asset Finance, driving increased net interest and trading income and net operating lease income. Banking and Financial Services' profit contribution was also up on the prior year, benefiting from growth in loan and deposit volumes and the gain on disposal of an investment in OzForex.

Macquarie Bank's capital markets facing businesses – Macquarie Securities and Fixed Income, Currencies and Commodities – delivered a combined net profit contribution for the year ended 31 March 2014 of \$A661 million, an increase of 77 per cent on the prior year. For Macquarie Securities, the key drivers in the improved performance compared to the prior year were improved global equity market conditions combined with the wind down of legacy activities. Fixed Income, Currencies and Commodities' profit contribution improved on the prior year mainly due to improved trading opportunities from a general improvement in market conditions across most markets, and increased volatility in commodity markets driving a higher level of client hedging activity.

Net operating income of \$A5,486 million for the year ended 31 March 2014 increased 19 per cent from \$A4,601 million in the prior year. Key drivers of the changes from the prior year were:

- A 20 per cent increase in net interest income to \$A1,715 million for the year ended 31 March 2014 from \$A1,428 million in the prior year primarily due to higher interest bearing asset volumes across the Bank combined with reduced funding margins.
- An 11 per cent increase in fee and commission income to \$A1,685 million for the year ended 31 March 2014 from \$A1,513 million in the prior year, driven by increased base fees of \$A797 million for the year ended 31 March 2014, up 25 per cent from \$A639 million in the prior year primarily due to an increase in assets under management that was largely driven by favourable currency and market movements, acquisitions and positive fund flows across Macquarie Funds.

- A 25 per cent increase in net trading income to \$A1,602 million for the year ended 31 March 2014 up from \$A1,278 million in the prior year, mainly driven by improved trading conditions for Fixed Income, Currencies and Commodities, particularly in commodities markets, and improved trading conditions and market sentiment for Macquarie Securities.
- A 37 per cent increase in other operating income and charges to \$A470 million for the year ended 31 March 2014 from \$A342 million in the prior year. The increase was due to:
 - a reduction in impairment charges on equity investments (including investment securities available for sale and associates and joint ventures) of 42 per cent to \$A114 million for the year ended 31 March 2014 from \$A197 million in the prior year. While mining equity markets remain subdued, investor sentiment and confidence in these markets appear to have stabilised in the second half of the year, resulting in significantly lower levels of equity impairments for Fixed Income, Currencies and Commodities for both the year and the second half compared to the prior year and the first half; and
 - an increase in net operating lease income of 27 per cent from \$A417 million in the prior year to \$A531 million for the year ended 31 March 2014 driven by the full year contribution of Corporate and Asset Finance's European Rail operating lease business acquired in January 2013 and the depreciation of the Australian dollar, which favourably impacted earnings from the aircraft, rail and UK Energy Leasing operating lease portfolios.

Total operating expenses increased 15 per cent from \$A3,572 million in the prior year to \$A4,091 million for the year ended 31 March 2014 mainly reflecting the impact of the depreciation of the Australian dollar on offshore expenses in addition to the following key drivers:

- an 11 per cent increase in employment expenses to \$A1,684 million for the year ended 31 March 2014 from \$A1,511 million in the prior year primarily due to higher staff compensation due to the improved performance of the Bank;
- a 33 per cent increase in brokerage, commission and trading-related expenses from \$A523 million in the prior year to \$A697 million for the year ended 31 March 2014 mainly due to growth of physical metals financing activities; and
- a 13 per cent increase in other operating expenses from \$A1,305 million in the prior year to \$A1,470 million for the year ended 31 March 2014 mainly driven by an increase in business activity.

Income tax expense for the year ended 31 March 2014 was \$A621 million, up 75 per cent from \$A355 million in the prior year with an effective tax rate of 44.6 per cent reflecting the geographic mix of income and tax uncertainties.

Directors' Report

for the financial year ended 31 March 2014

continued

The Consolidated Entity's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained.

The Consolidated Entity's capital management policy is to be conservatively capitalised and to maintain diversified funding sources in order to support business initiatives, while maintaining counterparty and client confidence.

The Consolidated Entity's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, while also providing the flexibility to take advantage of opportunities as they may arise.

The Consolidated Entity is well capitalised and as at 31 March 2014, Macquarie Bank had a Common Equity Tier 1 Capital Ratio of 9.6 per cent and a Tier 1 Capital Ratio of 10.6 per cent. Under Basel III rules, APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent, 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. Macquarie Bank's internal capital policy set by the Board requires capital floors above the regulatory required level. The Consolidated Entity has met all of its capital requirements throughout the year.

Macquarie Bank's capital management strategy is outlined in Note 26 to the financial statements contained within the 2014 Financial Report.

Business strategies

Macquarie Bank's core business involves leveraging the deep expertise and insight of our people to deliver value to clients in selected areas of financial services.

The business strategy is to focus on the medium term and is built on: providing services to clients; aligning the interests of shareholders, investors and staff; utilising a conservative approach to risk management; continuing to focus on growth and evolution; diversifying by business and geography; and adapting to change. This approach provides flexibility to enter into new business sectors and regions as opportunities emerge and to expand existing businesses in selected areas of expertise.

Macquarie Bank seeks to encourage growth and diversity by allowing strategy to be driven in the individual businesses at the operating level. However, equity, credit, market, liquidity, compliance and operational risks are centrally managed by the Risk Management Group, whose responsibility is to implement appropriate assessment and management policies in respect of these risks throughout the Bank.

Macquarie Bank's business has evolved and changed to adapt to market conditions. Macquarie Bank examines investment opportunities and has undertaken a number of strategic acquisitions in response to changing market conditions and opportunities. Macquarie Bank will continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth and diversification in its existing businesses in the medium term.

Prospects for future financial years

While the impact of future market conditions makes forecasting difficult, it is currently expected that the combined net profit contribution from operating groups for the financial year ending 31 March 2015 will be up on the financial year ended 31 March 2014.

The tax rate for the financial year ending 31 March 2015 is currently expected to be broadly in line with the financial year ended 31 March 2014.

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

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

Macquarie Bank's financial risk management framework is outlined in Note 38 to the financial statements contained within the 2014 Financial Report.

Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2014 not otherwise disclosed in this report.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

Introduction.....	8
1 Macquarie's remuneration framework, with only incremental change, continues to support the overarching objective of delivering superior value for shareholders over the long-term, while prudently managing risk.....	8
1.1 Macquarie's overall remuneration objectives remain appropriate	8
1.2 The remuneration framework is appropriate	8
1.3 The remuneration framework operates effectively.....	10
2 Remuneration outcomes are aligned to business results and shareholder returns.....	17
3 Strong remuneration governance continues to be exercised.....	18
3.1 Strong Board oversight exists to ensure sound overall remuneration governance	18
3.2 An independent remuneration review has been undertaken.....	20
4 Non-Executive Director remuneration continues to recognise their independent role.....	21
4.1 Non-Executive Director remuneration policy.....	21
4.2 Board and Committee fees	21
4.3 Minimum shareholding requirement for Non-Executive Directors	21
Appendices: Key Management Personnel (KMP) disclosures.....	22
Appendix 1: KMP	22
Appendix 2: Statutory remuneration disclosures.....	23

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

Introduction

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

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

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

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

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

Each of these conclusions is outlined in turn.

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

1.1 Macquarie's overall remuneration objectives remain appropriate

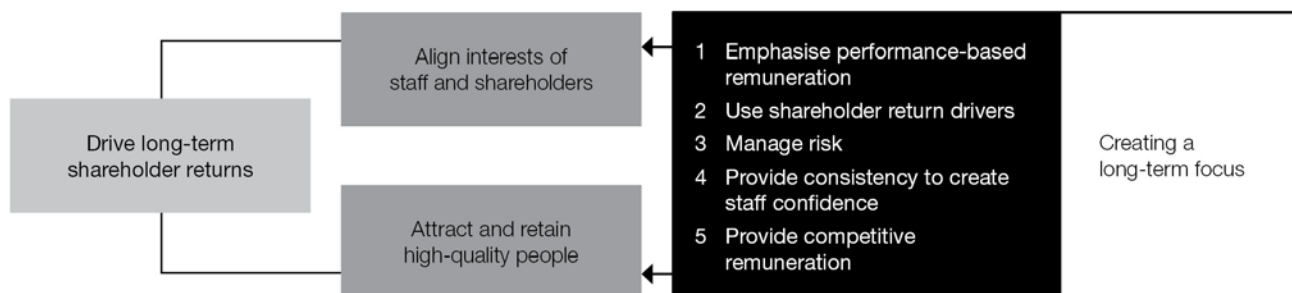
Directors consider that Macquarie's overall remuneration objectives of driving shareholder returns over the long-term, while prudently managing risk, remain appropriate. They recognise that to achieve these objectives, Macquarie must attract, motivate and retain exceptional people, while aligning their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

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

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

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

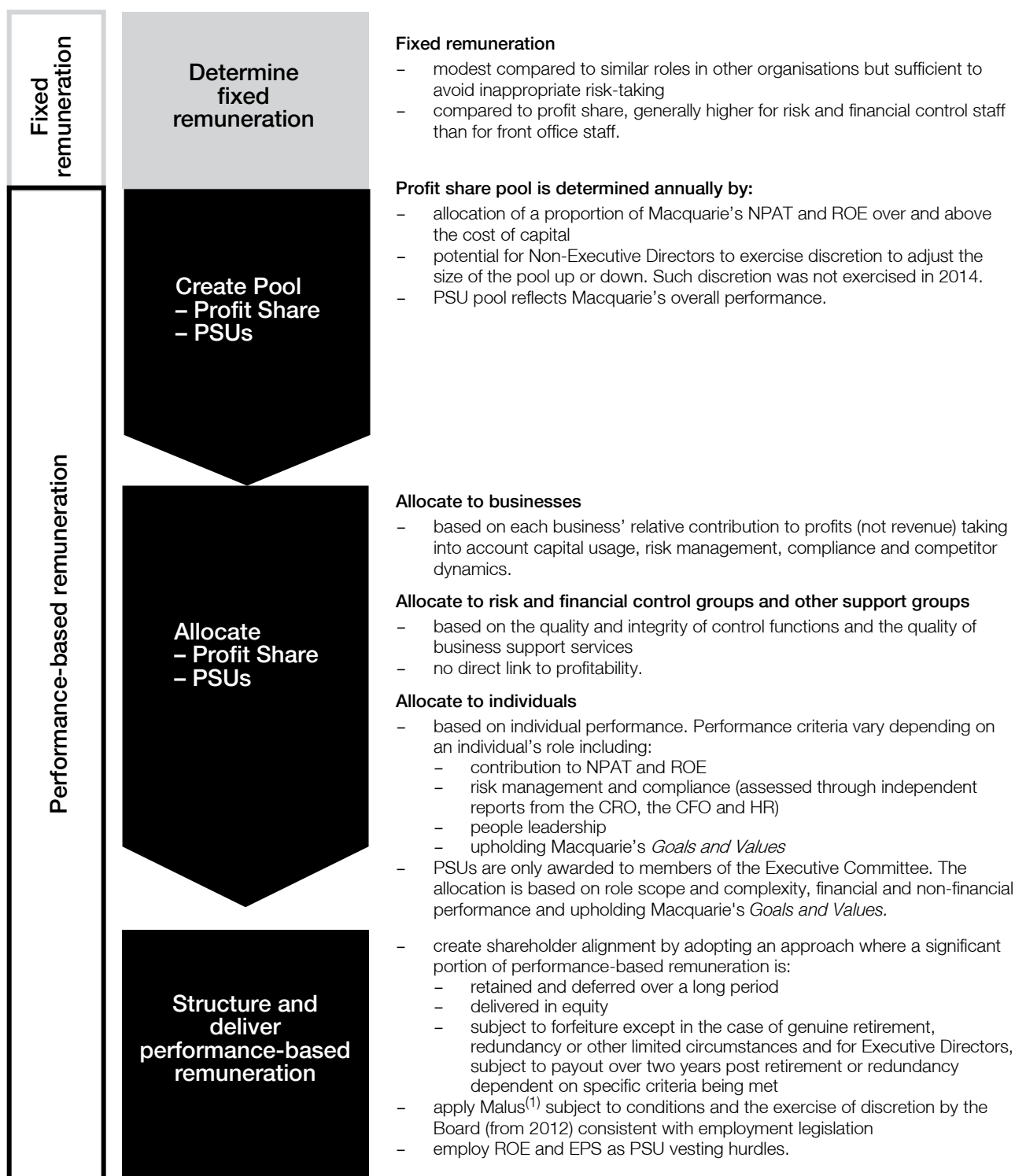
Overall remuneration objectives and principles



1.2 The remuneration framework is appropriate

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

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



(1) See section 1.3.4 for a description.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

1.3 The remuneration framework operates effectively

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

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

The Board has discretion to change the remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments. The way any such discretion has been exercised will be described below.

1.3.1 How the features operate together to provide shareholder alignment

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

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

(1) Includes both the Managing Director and Chief Executive Officer of Macquarie (CEO) and the CEO of Macquarie Bank.

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

(3) The Non-Executive Directors have exercised their discretion and increased the retention rate and amended the vesting and release period for FY2014 profit share to reflect the impact of the SYD Distribution on MEREP for Executive KMP and certain senior executives.

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

(5) Retained profit share is invested either directly or notionally, and may also include an investment in subsidiaries in the case of acquired businesses. For staff other than Executive Director, retained profit share is generally (but not exclusively) invested in Macquarie equity.

(6) As approved by shareholders in July 2013.

(7) Macquarie Group Employee Retained Equity Plan.

1.3.2 Profit share retention levels

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

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

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

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

Standard retention rates by role

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

1.3.3 Investment of retained profit share

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

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

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

For staff other than Executive Directors, retained profit share is generally (but not exclusively) invested in Macquarie equity.

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

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

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

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

- (1) The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). Where legal or tax rules make the grant of RSUs impractical, including different tax rules for employee equity and different securities laws, equity grants will be in the form of: 1. shares held by the staff member subject to restrictions (Restricted Shares); or 2. the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. For further details on the MEREP structure, refer to note 33 of the 2014 Financial Statements.
- (2) The Post-2009 DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities.

1.3.4 Forfeiture of retained profit share for employees (Malus)

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

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

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

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

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

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

1.3.5 Early vesting and release of retained profit share

As approved by shareholders in July 2013, a departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy, disability, serious ill-health or other limited exceptional circumstances. The Board or its delegate has discretion to accelerate the vesting of retained profit share under these circumstances (subject to the disqualifying events provisions).

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

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

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

In certain other limited exceptional circumstances, discretion may be exercised to accelerate the vesting of retained profit share and reduce the retention period on the grounds of business efficacy, in connection with strategic business objectives (including in connection with the divestment or internalisation of Macquarie businesses) or when an employee resigns to fulfil a senior full-time role in a governmental organisation or agency. In considering whether the discretion should be exercised all relevant factors will be considered and will include whether the employee has a record of sustained contribution and commitment to Macquarie over a considerable period of time and whether exercise of the discretion is in the best interests of Macquarie. This year discretion has been exercised and retained profit share released for two executives where the business, to which they provided services, was sold. The Board or its delegate may impose such other conditions as it considers appropriate, where such discretion is exercised.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

1.3.5.1 Disqualifying events provision

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

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

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

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

1.3.6 Performance share units (PSUs)

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

Determination	- The Board approves the value of PSUs to be allocated to Executive Committee members each year
Allocation	- The allocation to individuals⁽¹⁾ is based on: - role scope and complexity - financial and non-financial performance assessment against a range of factors including financial results, risk management, business leadership and people and organisational leadership - upholding Macquarie's <i>Goals and Values</i>
Vesting	- Since 2012, PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles (refer 1.3.6.1) - Grants made prior to 2012 vested in three equal tranches after two, three and four years.
Upon leaving Macquarie	To ensure continued alignment with shareholders post termination, in cases of genuine retirement, PSUs continue to vest in accordance with the above vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit PSUs, when an Executive Committee member leaves Macquarie. To date, this discretion has not been exercised.

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

1.3.6.1 Performance hurdles for PSUs

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

	EPS CAGR Hurdle	ROE Hurdle
Application to PSU awards	50 per cent	50 per cent
Performance measure	Compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years)	Relative average annual return on ordinary equity over the vesting period (three to four years) compared to a reference group of global peers ⁽¹⁾
Hurdle	Sliding scale applies: – 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent – 100 per cent at EPS CAGR of 12 per cent For example, if EPS CAGR was 9.75 per cent, 75 per cent of the relevant awards would become exercisable. For awards made prior to 2013, the EPS CAGR hurdle range was 9 per cent to 13 per cent.	Sliding scale applies: – 50 per cent becoming exercisable above the 50th percentile – 100 per cent at the 75th percentile For example, if ROE achievement was at the 60th percentile, 70 per cent of the relevant awards would become exercisable.
Rationale for hurdles	– Hurdles are periodically examined by the BRC as part of their ongoing review of the remuneration approach, to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2014. – ROE and EPS are considered appropriate measures of performance as they drive longer-term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool. – ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, TSR is influenced by many external factors, including market sentiment, over which executives have limited control. – ROE and EPS can be substantiated using information that is disclosed in audited financial statements. – The use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk taking. – The approach is consistent with that advocated by APRA in not using TSR as a measure. – Being three and four year average measures from 2012 and aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee. Use of an international peer group recognises the extent of Macquarie's internationalisation. At 31 March 2014, more than two-thirds of Macquarie's income and over half of Macquarie's staff were offshore.	

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

Testing of hurdles

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

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

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

PSUs that did not meet performance hurdles expired.

1.3.7 No special contractual termination payments

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

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

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

2 Remuneration outcomes are aligned to business results and shareholder returns

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

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

3 Strong remuneration governance continues to be exercised

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

3.1 Strong Board oversight exists to ensure sound overall remuneration governance

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

The BRC currently comprises five Independent Non-Executive Directors:

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

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

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

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

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

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

In addition, as part of the remuneration process:

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

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

⁽¹⁾ The Boards of Macquarie and Macquarie Bank, as appropriate.

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

⁽³⁾ Including base remuneration, profit share and PSUs where applicable

⁽⁴⁾ The *Corporations Act 2001 (Cth)* (the Act) contains an exception to the general prohibition on voting on a matter in which a Director has a material personal interest in respect of a director's remuneration as a director.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

3.2 An independent remuneration review has been undertaken

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

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

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

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

Pay Governance's findings were that:

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

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

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

4.1 Non-Executive Director remuneration policy

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

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

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

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

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

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

4.2 Board and Committee fees

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

Macquarie Bank Fees

	Macquarie Bank fees	
	\$A	\$A
	Chairman	Members
Board	240,000	65,000

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

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

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

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

4.3 Minimum shareholding requirement for Non-Executive Directors

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

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

Appendices: Key Management Personnel (KMP) disclosures

Appendix 1: KMP

KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of Macquarie and its controlled entities (together making Executive KMP) and Non-Executive Directors. Macquarie's Non-Executive Directors are required by the *Corporations Act 2001 (Cth)* to be included as KMP for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider themselves part of 'management'. The table reflects KMP movements during the 2014 and 2013 financial years. The key changes included:

Non-Executive Directors:

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

Executives:

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

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

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

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

Appendix 2: Statutory remuneration disclosures

Executive remuneration

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

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2014 and 31 March 2013, only include remuneration relating to the portion of the relevant periods that each individual was an Executive KMP. Hence, comparable executive remuneration is confined to those who were Executive KMP for the full year in both FY2014 and FY2013.

While RSUs/DSUs, and PSUs for Executive Committee members, in respect of the current year's performance will be granted in the following financial year, Macquarie begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using the Company's share price as at 31 March 2014 (and for PSUs, also incorporates an interest rate to maturity of 3.62 per cent; expected vest dates of PSU: 1 July 2017 and 3 July 2018; and a dividend yield of 5.02 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

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

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

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

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

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

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

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

Notes to the statutory remuneration disclosures

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

Notes on individuals

- (7) Mr Downe and Mr McLaughlin are paid in \$SG and \$US respectively. They have not received a base remuneration increase during the year. The base salary for FY2014 differs to FY2013 due to exchange rate movements.
- (8) Mrs Sorbara was appointed to the Executive Committee on 1 January 2013. Disclosed remuneration reflects Mrs Sorbara's time as KMP.
- (9) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013. Disclosed remuneration reflects Mr Maher's time as KMP.

Non-Executive Director Remuneration

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

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

(1) Other benefits for Non-Executive Directors include a travel allowance in FY2013 for Mr Hawker who was a resident of the UK until 30 June 2012.

(2) Mr Banks was appointed to the MBL Board on 1 August 2013.

(3) Mrs Cross was appointed to the MBL Board on 7 August 2013.

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

(5) Dr Niland retired from the MBL Board on 31 December 2013.

(6) Ms Wakefield Evans was appointed to the MBL Board on 7 February 2014.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2014

continued

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

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

- financial information for Macquarie relating to the years ended 31 March 2006 through to 31 March 2014 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
- financial information for Macquarie relating to the year ended 31 March 2005 has been restated to comply with revised Australian Accounting Standards, with the exception of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005.

This is the end of the Remuneration Report.

Directors' Report

for the financial year ended 31 March 2014

continued

Voting Directors' equity participation

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

Directors' and officers' indemnification and insurance

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

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

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

Under the Deed, Macquarie Bank agrees to:

- indemnify a current or past Voting Director to the full extent of the indemnity given in relation to officers of Macquarie Bank under its Constitution in force from time to time
- take out and maintain a reimbursement insurance policy and make available to Voting Directors a Directors' and Officers' insurance policy (each policy to be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie Bank's position) for seven years after the Voting Director ceases to be a Voting Director of Macquarie Bank

- loan funds to a Voting Director to cover the Voting Director's legal costs in defending a claim, repayable when the outcome of the proceedings is determined (where the outcome results in the Voting Director having an indemnity for such legal costs, the loan will be repayable from the amount paid by Macquarie Bank to the Voting Director under the indemnity), and
- grant access to Voting Directors to all Board papers for at least seven years after the Voting Director ceases to be a Voting Director of Macquarie Bank, and access to other documents if the documents were in Macquarie Bank's possession at the time the Voting Director was a Voting Director and where it is not contrary to Macquarie Bank's interest for the documents to be provided.

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

The Deed Poll was superseded by a corresponding deed poll made by Macquarie Group Limited prior to the 2007 restructure which resulted in Macquarie Group Limited becoming the ultimate parent company of the group. As a result, only persons who were directors and secretaries of companies in the Macquarie Bank group before the restructure have the benefit of the Deed Poll for their acts before, during and after the restructure implementation date.

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

Directors' Report

for the financial year ended 31 March 2014

continued

Directors' relevant interests

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

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

Environmental regulations

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

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

Non-audit services

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

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

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

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

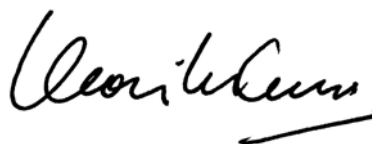
Auditor's independence declaration

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

Rounding of amounts

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

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



H Kevin McCann, AM

Independent Director and
Chairman



Greg Ward

Managing Director and
Chief Executive Officer

Sydney
2 May 2014

Directors' Report Schedule 1

for the financial year ended 31 March 2014

Directors' experience and special responsibilities

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

Independent Chairman since March 2011

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

Experience

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

Other current directorships/appointments

- Chairman, National Library of Australia Foundation
- Director, Sydney Institute of Marine Science
- Director, the United States Studies Centre at the University of Sydney
- Director, Evans and Partners Pty Limited
- Member, Australian Treasury Advisory Council
- Fellow, University of Sydney Senate
- Co-Vice Chair, New Colombo Plan Reference Group
- Member, Advisory Board, University of Sydney Business School
- Member, Corporate Governance Committee, Australian Institute of Company Directors

Listed company directorships

(held at any time in the last three years)

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

Mr McCann is a resident of New South Wales.

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

Managing Director and Chief Executive Officer since December 2011

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

Experience

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

Other current directorships/appointments

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

Mr Ward is a resident of New South Wales.

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

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

Experience

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

Other current directorships/appointments

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

Mr Moore is a resident of New South Wales.

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

Member - Board Audit Committee

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

Experience

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

Other current directorships/appointments

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

Mr Banks is a resident of Victoria.

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

Chairman - Board Audit Committee

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

Experience

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

Other current directorships/appointments

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

- Director, Osteoporosis Australia
- Board member, Belvoir Street Theatre Foundation Limited

Listed company directorships

(held at any time in the last three years)

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

Mr Coleman is a resident of New South Wales.

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

Member - Board Audit Committee

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

Experience

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

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

Other current directorships/appointments

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

Listed company directorships

(held at any time in the last three years)

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

Mrs Cross is a resident of Victoria.

Directors' Report Schedule 1

for the financial year ended 31 March 2014

continued

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

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

Experience

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

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

Other current directorships/appointments

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

Listed company directorships

(held at any time in the last three years)

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

Ms Grady is a resident of New South Wales.

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

Member – Board Audit Committee

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

Experience

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

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

Other current directorships/appointments

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

Listed company directorships

(held at any time in the last three years)

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

Mr Hawker is a resident of New South Wales.

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

Member – Board Audit Committee

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

Experience

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

Listed company directorships

(held at any time in the last three years)

- Chairman, DuluxGroup Limited (since July 2010)

Mr Kirby is a resident of Victoria.

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

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

Experience

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

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

Other current directorships/appointments

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

Listed company directorships

(held at any time in the last three years)

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

Dr Nugent is a resident of New South Wales.

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

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

Experience

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

Other current directorships/appointments

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

Listed company directorships

(held at any time in the last three years)

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

Ms Wakefield Evans is a resident of New South Wales.

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

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

Experience

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

He is a former Director of Next Financial Limited.

Other current directorships/appointments

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

Listed company directorships

(held at any time in the last three years)

- Chairman, ALE Property Group (since September 2003)
- Chairman, OzForex Group Limited (since September 2013)
- Deputy Chairman, Crowe Horwath Australasia Limited (director since May 2007)
- Director, ASX Limited (since July 2006)

Mr Warne is a resident of New South Wales.

Directors' Report Schedule 1

for the financial year ended 31 March 2014

continued

Company secretaries' qualifications and experience

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

Company Secretary since 25 October 1993

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

Paula Walsh, ACIS

Assistant Company Secretary since 29 May 2008

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

**Ida Lawrance, BCom (Hons) (Queens), DipLaw
(LPAB), LLM (UNSW), AGIA**

Assistant Company Secretary since 1 January 2014

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

Directors' Report Schedule 2

for the financial year ended 31 March 2014



Auditor's independence declaration

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

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

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

A handwritten signature in black ink, appearing to read 'DH Armstrong'.

DH Armstrong

Partner
PricewaterhouseCoopers

Sydney
2 May 2014

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

Macquarie Bank Limited

2014 Financial Report

Contents

Income statements.....	39
Statements of comprehensive income.....	40
Statements of financial position	41
Statements of changes in equity	42
Statements of cash flows.....	44
Notes to the financial statements	46
1 Summary of significant accounting policies	46
2 Profit for the financial year	58
3 Segment reporting.....	61
4 Income tax expense	65
5 Dividends and distributions paid or provided for	66
6 Receivables from financial institutions.....	67
7 Trading portfolio assets	67
8 Investment securities available for sale	68
9 Other assets.....	68
10 Loan assets held at amortised cost.....	69
11 Impaired financial assets.....	71
12 Other financial assets at fair value through profit or loss.....	71
13 Property, plant and equipment.....	72
14 Interests in associates and joint ventures accounted for using the equity method.....	75
15 Intangible assets.....	76
16 Investments in subsidiaries	77
17 Deed of cross guarantee	78
18 Deferred tax assets/(liabilities)	80
19 Trading portfolio liabilities.....	80
20 Deposits.....	80
21 Other liabilities	81
22 Payables to financial institutions.....	81
23 Other financial liabilities at fair value through profit or loss	81
24 Debt issued at amortised cost	82
25 Provisions.....	82
26 Capital management strategy	83
27 Loan capital.....	84
28 Contributed equity.....	86
29 Reserves, retained earnings and non-controlling interests.....	88
30 Notes to the statements of cash flows	90
31 Related party information.....	91
32 Key Management Personnel disclosure.....	94
33 Employee equity participation	98
34 Contingent liabilities and commitments	104
35 Lease commitments	104
36 Structured entities	105
37 Derivative financial instruments	107
38 Financial risk management.....	108
39 Fair values of financial assets and liabilities	136
40 Offsetting financial assets and financial liabilities	149
41 Transfers of financial assets	152
42 Audit and other services provided by PricewaterhouseCoopers.....	155
43 Acquisitions and disposals of subsidiaries and businesses	156
44 Events after the reporting period	157
Directors' declaration.....	158
Independent auditor's report.....	159

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

Income statements

for the financial year ended 31 March 2014

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

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

Statements of comprehensive income

for the financial year ended 31 March 2014

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

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

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

Statements of financial position

as at 31 March 2014

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

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

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

Statements of changes in equity

for the financial year ended 31 March 2014

	Notes	Contributed equity ⁽¹⁾ \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
							Consolidated
Balance at 1 April 2012		8,077	(532)	1,658	9,203	68	9,271
Profit after income tax		–	–	671	671	3	674
Other comprehensive expense, net of tax		–	(28)	–	(28)	(3)	(31)
Total comprehensive (expense)/income		–	(28)	671	643	–	643
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(1,283)	(1,283)	–	(1,283)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	27	27
Distributions paid or provided for		–	–	–	–	(3)	(3)
		–	–	(1,283)	(1,283)	24	(1,259)
Balance at 31 March 2013		8,077	(560)	1,046	8,563	92	8,655
Profit after income tax		–	–	770	770	4	774
Other comprehensive income, net of tax		–	492	–	492	14	506
Total comprehensive income		–	492	770	1,262	18	1,280
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(428)	(428)	–	(428)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	(29)	(29)
Distributions paid or provided for		–	–	–	–	(4)	(4)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	28	24	–	–	24	–	24
		24	–	(428)	(404)	(33)	(437)
Balance at 31 March 2014		8,101	(68)	1,388	9,421	77	9,498

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

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
							Bank
Balance at 1 April 2012		8,155	(35)	607	8,727	–	8,727
Profit after income tax		–	–	821	821	–	821
Other comprehensive income, net of tax		–	69	–	69	–	69
Total comprehensive income		–	69	821	890	–	890
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(1,266)	(1,266)	–	(1,266)
Other equity movements:							
Return of capital to ultimate parent entity in relation to share-based payments	28	(3)	–	–	(3)	–	(3)
		(3)	–	(1,266)	(1,269)	–	(1,269)
Balance at 31 March 2013		8,152	34	162	8,348	–	8,348
Profit after tax		–	–	751	751	–	751
Other comprehensive expense, net of tax		–	(12)	–	(12)	–	(12)
Total comprehensive income		–	(12)	751	739	–	739
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(414)	(414)	–	(414)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	28	5	–	–	5	–	5
		5	–	(414)	(409)	–	(409)
Balance at 31 March 2014		8,157	22	499	8,678	–	8,678

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of cash flows

for the financial year ended 31 March 2014

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

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

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

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

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

for the financial year ended 31 March 2014

Note 1

Summary of significant accounting policies

(i) Basis of preparation

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

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

Compliance with IFRS as issued by the IASB

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

Historical cost convention

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

Critical accounting estimates and significant judgements

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

- fair value of financial assets and liabilities (note 39);
- impairment of loan assets held at amortised cost, investment securities available for sale and interests in associates and joint ventures (notes 1(xii), 1(xiii), 10 and 14);
- acquisitions and disposals of subsidiaries and associates and joint ventures (notes 1(ii), 14 and 43);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of structured entities (notes 1(ii), 10 and 36);
- determination of whether dividends and distributions received are recognised as income or a return of capital (note 1(vi));
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (notes 1(vii), 4 and 18); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvi) and 15).

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

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

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

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

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

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

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

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

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

Consolidated statement of cash flows (extract)

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

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

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

AASB 13 *Fair value measurement*

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

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

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

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

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

presented as “Items that may be reclassified subsequently to profit or loss”.

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

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

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

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

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

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

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

AASB 9 *Financial Instruments* and consequential amendments

AASB 9 includes the classification, measurement, recognition and derecognition requirements for financial instruments. A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in OCI, but upon realisation, those accumulated changes in value are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 1

Summary of significant accounting policies continued

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

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

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

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

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

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

(ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) over which the Bank has the power to direct the relevant activities, exposure to significant variable returns and the ability to utilise power to affect the Consolidated Entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed.

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

Structured entities

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

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

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the Bank owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

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

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

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

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

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method except those which are classified as held for sale. The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statement, and the share of its post-acquisition movements in reserves.

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

(iii) Business combinations

The purchase method of accounting is used to account for all business combinations (excepting business combinations involving entities or businesses under common control) which

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 1

Summary of significant accounting policies continued

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

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

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

Combinations between entities or businesses under common control

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

(iv) Segment reporting

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

(v) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of foreign operations are measured using the currency of the primary economic

environment in which the foreign operation operates (the functional currency). The Bank's and Consolidated Entity's financial statements are presented in Australian dollars (the presentation currency), which is also the Bank's functional currency.

Transactions and balances

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

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

Subsidiaries and other entities

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

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

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

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

(vi) Revenue and expense recognition

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

Net interest income

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

Fee and commission income

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

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

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

Net trading income

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

Dividends and distributions

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

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

- whether the payment follows a legal process to reduce either the number of outstanding shares or the amount of share capital;
- whether evidence exists clearly demonstrating that the distribution is a return of capital originally invested by the investor (e.g. the timing of a distribution relative to the acquisition of the investment);
- the substance of the payment, including the existence of non-discretionary evidence, that may identify its nature. A director declaration of the nature is given a low weighting in the analysis;

- whether other transactions occur with the same counterparty at the same time as, or in contemplation of, the payment;
- whether the payment is from profits in proportion to the investors' particular class of capital;
- when a dividend is paid in the form of additional equity of the investee, whether all investors retain the same relative ownership interest in the investee;
- whether the criteria for derecognising part, or all, of an investment in a financial asset under AASB139 *Financial Instruments: Recognition and Measurement* are met, and in particular if substantially all the risks and rewards of ownership have been transferred; and
- the basis for the amendment in May 2008 to the 'cost method' description in AASB 127 *Consolidated and Separate Financial Statements* so as to remove an approach solely relying upon determining post-acquisition retained earnings.

(vii) Income tax

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

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 1

Summary of significant accounting policies continued

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

Tax consolidation

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

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

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

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

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

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

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

(ix) Trading portfolio assets and liabilities

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

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

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

(x) Derivative instruments

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

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

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

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

(xi) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

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

(xii) Investments and other financial assets

With the exception of trading portfolio assets and derivatives, which are classified separately in the statement of financial position, the remaining investments in financial assets are classified into the following categories: loans and receivables, other financial assets at fair value through profit or loss and investment securities available for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except

for other financial assets at fair value through profit or loss, is re-evaluated at each balance date.

Loans and receivables

This category includes loan assets held at amortised cost and amounts due from subsidiaries, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other financial assets at fair value through profit or loss

This category includes only those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition.

The policy of management is to designate a financial asset as such if: the asset contains embedded derivatives which must otherwise be separated and carried at fair value; it is part of a group of financial assets managed and evaluated on a fair value basis; or doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

Investment securities available for sale

Investment securities available for sale comprise securities that are not actively traded and are intended to be held for an indefinite period. Such securities are available for sale and may be sold should the need arise, including purposes of liquidity, or due to the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices.

If the relevant market is not considered active (or the securities are unlisted), fair value is established by valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Interest income on debt securities available for sale is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 1

Summary of significant accounting policies continued

(xiii) Impairment

Loan assets held at amortised cost

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

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

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

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

Investment securities available for sale

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

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost.

In making this judgement, the Consolidated Entity evaluates among other factors, the normal volatility in share price and the period of time for which fair value has been below cost.

In the case of debt securities classified as available for sale, observable data that relates to loss events are considered,

including adverse changes in the payment status of the issuer and national or local economic conditions that correlate with defaults on those assets.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

When the fair value of an available for sale financial asset is less than its initial carrying amount and there is objective evidence that the asset is impaired, the cumulative loss recognised directly in OCI is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement for equity securities classified as available for sale are not subsequently reversed through the income statement. However impairment losses recognised for debt investment securities classified as available for sale are subsequently reversed through the income statement if the fair value increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

Interests in associates and joint ventures

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that its interests in associates and joint ventures are impaired. The entire carrying amount of each investment in associate and joint venture is considered in the assessment. The main indicators of impairment are as for equity securities classified as available for sale, disclosed above.

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

(xiv) Life insurance business

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

Disclosure

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

Investment assets

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

Restriction on assets

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

Policy liabilities

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

(xv) Property, plant and equipment

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

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

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

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

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

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

(xvi) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

Licences and trading rights are carried at cost less accumulated impairment losses. These assets are not amortised because they are considered to have an indefinite useful life.

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

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

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

Software

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

Impairment

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 1

Summary of significant accounting policies continued

(xvii) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

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

(xviii) Provisions

Employee benefits

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

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

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

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

Dividends

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

(xix) Performance based remuneration

Share-based payments

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

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

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

Restricted Share Units (RSUs)/Deferred Share Units (DSUs) and PSUs for Executive Committee members, have been granted in the current year in respect of 2013. The fair value of each of these grants is estimated using MGL's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

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

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

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

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

Profit share remuneration

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

(xx) Cash and cash equivalents

Cash and cash equivalents comprise:

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

(xxi) Leases

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

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

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

(xxii) Offsetting financial instruments

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

(xxiii) Loan capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at either amortised cost using

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

(xxiv) Contributed equity

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

(xxv) Changes in ownership interests

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

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in associate or joint venture (such that it becomes a financial asset), retained ownership interests are revalued to their current fair value and any gain or loss is immediately recognised in the income statement.

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

(xxvi) Comparatives

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

(xxvii) Rounding of amounts

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

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

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

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	-----------------------------	-----------------------------	---------------------	---------------------

Note 2

Profit for the financial year continued

Other operating income and charges

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

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

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

Note 3

Segment reporting

(i) Operating segments

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

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

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

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

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

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

Corporate is not considered an operating group and includes head office and central support functions including Group Treasury. The Corporate segment also holds certain investments not aligned with any of the Operating Groups. Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and certain distributions attributable to non controlling interests (NCI) and holders of loan capital.

Internal transactions

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

Internal funding arrangements

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

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

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

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

Transactions between Operating Groups

Operating Groups that enter into arrangements with other Operating Groups must do so on commercial terms. There is a requirement for accounting symmetry in such transactions.

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

Internal management revenue/charges

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Macquarie Funds Group \$m	Corporate and Asset Finance \$m	Banking and Financial Services Group \$m
--	---------------------------------	---------------------------------------	---

Note 3

Segment reporting continued

(i) Operating segments continued

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

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 3

Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages, and leasing.

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

(iii) Geographical areas

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

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

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

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	-----------------------------	-----------------------------	---------------------	---------------------

Note 4

Income tax expense

(i) Income tax expense

Current tax (expense)/benefit	(366)	(259)	(114)	19
Deferred tax expense	(255)	(96)	(252)	(105)
Total	(621)	(355)	(366)	(86)

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

Prima facie income tax expense on operating profit ⁽¹⁾	(419)	(309)	(335)	(272)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	(198)	(17)	(218)	(49)
Intra-group dividends	–	–	191	329
Impairment charge on controlled entities	–	–	(26)	(33)
Other items	(4)	(29)	22	(61)
Total income tax expense	(621)	(355)	(366)	(86)

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

Available for sale reserve	(2)	(21)	7	(38)
Cash flow hedges	(10)	8	2	(1)
Foreign currency translation reserve	–	13	–	–
Share of other comprehensive income of associates and joint ventures	–	1	–	–
Total tax benefit/(expense) relating to items of other comprehensive income	(12)	1	9	(39)

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

Investments in subsidiaries, associates, securities available for sale and joint ventures	(77)	45	(18)	22
Fixed assets	15	(6)	27	8
Leasing and financial instruments	(132)	(75)	(123)	(28)
Intangible assets	(15)	6	2	–
Other assets and liabilities	(17)	(82)	(101)	(132)
Tax Losses	(29)	16	(39)	25
Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities	(255)	(96)	(252)	(105)

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

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

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	-----------------------------	-----------------------------	---------------------	---------------------

Note 5

Dividends and distributions paid or provided for

(i) Dividends paid

Ordinary share capital

2012 special dividend paid	–	500	–	500
2013 final dividend paid	130	455	130	455
2014 interim dividend paid	280	307	280	307
Total dividends paid (note 29)	410	1,262	410	1,262

(ii) Dividends not recognised at the end of the financial year

Since the end of the financial year, the Directors have recommended the payment of a dividend. The aggregate amount of the proposed dividend expected to be paid on 06 May 2014 from retained profits at 31 March 2014, but not recognised as a liability at the end of the financial year, is \$159 million (2013: \$130 million).

(iii) Distributions paid or provided for

Macquarie Income Securities

Distributions paid (net of distributions previously provided)	14	17	–	–
Distributions provided for	4	4	–	–
Total distributions paid or provided for (note 29)	18	21	–	–

The Macquarie Income Securities (MIS) are stapled arrangements, which include a perpetual preference share issued by the Bank. No dividends are payable under the preference shares until the Bank exercises its option to receive future payments of interest and principal under the stapled security. Upon exercise, dividends are payable at the same rate and subject to similar conditions as the MIS. Dividends are also subject to Directors' discretion. The distributions paid or provided for in respect of the MIS are recognised directly in equity in accordance with AASB 132 *Financial Instruments: Presentation*. Refer to note 28—Contributed equity for further details on these instruments.

Macquarie Income Preferred Securities

Distributions paid (net of distributions previously provided)	2	2	–	–
Distributions provided for	2	2	–	–
Total distributions paid or provided for	4	4	–	–

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Refer to note 29—Reserves, retained earnings and non-controlling interests for further details on these instruments. The Bank can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture, 500 Bank preference shares may be substituted at the Bank's discretion at any time, in certain circumstances (to meet capital requirements) or on maturity.

Convertible Debentures

Distributions paid (net of distributions previously provided)	–	–	2	2
Distributions provided for	–	–	2	2
Total distributions paid or provided for (note 29)	–	–	4	4

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	--------------------------------------	--------------------------------------	------------------------------	------------------------------

Note 6

Receivables from financial institutions

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

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

⁽²⁾ The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral held as at 31 March 2014 is \$10,228 million (2013: \$6,088 million), which is generally sold or re-pledged.

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

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

Note 7

Trading portfolio assets

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

⁽¹⁾ Other government securities include state and local governments and related enterprises, predominantly in Australia.

⁽²⁾ Included within these balances are assets pledged as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is \$538 million (2013: \$907 million).

⁽³⁾ Included within this balance are trading assets of \$7,155 million (2013: \$6,784 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
Note 8				
Investment securities available for sale				
Equity securities				
Listed	123	246	120	229
Unlisted	275	236	62	72
Debt securities ^{(1),(2),(3)}	11,784	13,708	11,014	15,340
Total investment securities available for sale⁽⁴⁾	12,182	14,190	11,196	15,641

⁽¹⁾ Included within this balance is \$3,909 million (2013: \$3,357 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and \$100 million (2013: \$20 million) of bank bills.

⁽²⁾ Included within this balance is \$1,161 million (2013: \$1,002 million) provided as security over payables to other financial institutions.

⁽³⁾ Included within the Bank's balance is \$nil (2013: \$2,037 million) of mortgage based securities issued by a subsidiary.

⁽⁴⁾ Included within this balance is \$582 million (2013: \$297 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

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

Note 9

Other assets

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

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

⁽²⁾ In the year ended 31st March 2013, Life Investment contracts and other unitholder assets were disclosed as a separate line item in the statements of financial position of the Consolidated Entity and of the Bank respectively.

⁽³⁾ Included within this balance is \$50 million (2013: \$23 million) of assets which are provided as security over amounts payable to other financial institutions.

Of the above amounts, \$7,975 million (2013: \$7,485 million) and \$5,024 million (2013: \$4,812 million) are expected to be recovered within 12 months of the balance date by the Consolidated Entity and by the Bank.

Note 10

Loan assets held at amortised cost

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

(1) Included within this balance are loans of \$14,025 million (2013: \$10,774 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

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

(3) Included within this balance are loans of \$3,853 million (2013: \$5,863 million) that are held by either a government-backed securitisation vehicle or financial institutions, and which are pledged as security to note holders. Further, loans of \$720 million (2013: \$455 million) are pledged under repurchase agreements.

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

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

Of the above amounts, \$8,845 million (2013: \$9,858 million) is expected to be recovered within 12 months of the balance date by the Bank.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	-----------------------------	-----------------------------	---------------------	---------------------

Note 10

Loan assets held at amortised cost continued

Individually assessed provisions for impairment

Balance at the beginning of the financial year	277	352	242	281
Provided for during the financial year (note 2)	106	82	134	80
Loan assets written off, previously provided for	(100)	(141)	(50)	(67)
Recovery of loans previously provided for (note 2)	(11)	(12)	(53)	(50)
Net transfer from other provisions	10	–	3	–
Impact of foreign currency translation	18	(4)	13	(2)
Balance at the end of the financial year	300	277	289	242

Individually assessed provisions as a percentage of total gross loan assets

0.52%	0.56%	0.81%	0.93%
-------	-------	-------	-------

Collective allowance for credit losses

Balance at the beginning of the financial year	205	213	151	161
Written back during the financial year (note 2)	53	(7)	45	(10)
Transfer from other provisions	1	–	–	–
Impact of foreign currency translation	5	(1)	5	–
Balance at the end of the financial year	264	205	201	151

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

Finance lease receivables

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

	Consolidated 2014			Consolidated 2013		
	Gross investment in finance lease receivables	Unearned income	Present value of minimum lease payments receivable	Gross investment in finance lease receivables	Unearned income	Present value of minimum lease payments receivable
	\$m	\$m	\$m	\$m	\$m	\$m
No later than one year	1,733	(212)	1,521	1,926	(208)	1,718
Later than one year and no later than five years	4,435	(525)	3,910	4,007	(503)	3,504
Later than five years	269	(79)	190	97	(34)	63
Total finance lease receivables	6,437	(816)	5,621	6,030	(745)	5,285

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	--------------------------------------	-----------------------------	------------------------------	---------------------

Note 11

Impaired financial assets

Impaired debt investment securities available for sale before individually assessed provisions for impairment

Less individually assessed provisions for impairment

Debt investment securities available for sale after individually assessed provisions for impairment

Impaired loan assets and other financial assets before individually assessed provisions for impairment

Less individually assessed provisions for impairment

Loan assets and other financial assets after individually assessed provisions for impairment

Total net impaired financial assets

7	9	3	3
(6)	(7)	(3)	(2)
1	2	–	1
720	660	851	570
(334)	(310)	(307)	(267)
386	350	544	303
387	352	544	304

Note 12

Other financial assets at fair value through profit or loss

Investment securities

Equity securities

Debt securities

Loan assets

Total other financial assets at fair value through profit or loss⁽¹⁾

1,222	2,243	1,136	1,017
325	1,177	325	1,114
648	1,225	633	1,227
2,195	4,645	2,094	3,358

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

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

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

Note 13

Property, plant and equipment continued

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

	Land and buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Infrastructure assets \$m	Total \$m
Assets for own use					
Balance at 1 April 2012	36	47	5	6	94
Acquisitions	152	10	–	1	163
Disposals	–	(2)	–	–	(2)
Reclassification	–	(7)	(1)	–	(8)
Impairments	(13)	–	–	(2)	(15)
Depreciation expense (note 2)	(1)	(11)	(2)	–	(14)
Balance at 31 March 2013	174	37	2	5	218
Acquisitions	101	17	2	–	120
Disposals	–	(7)	–	–	(7)
Reclassification	6	(2)	–	(4)	–
Impairments	(2)	–	–	–	(2)
Foreign exchange movements	1	2	–	–	3
Depreciation expense (note 2)	(2)	(7)	(2)	–	(11)
Balance at 31 March 2014	278	40	2	1	321

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 13

Property, plant and equipment continued

	Aviation \$m	Meters \$m	Rail cars \$m	Other \$m	Total \$m
Assets under operating lease					
Balance at 1 April 2012	3,419	655	460	207	4,741
Acquisitions	72	84	677	124	957
Disposals	(135)	–	(25)	(7)	(167)
Reclassification	(33)	32	–	(4)	(5)
Foreign exchange movements	(15)	(34)	(33)	(3)	(85)
Depreciation expense (note 2)	(162)	(77)	(21)	(47)	(307)
Balance at 31 March 2013	3,146	660	1,058	270	5,134
Acquisitions	110	176	1	91	378
Disposals	(5)	(1)	(20)	(14)	(40)
Reclassification	(3)	(104)	–	5	(102)
Foreign exchange movements	389	148	192	26	755
Depreciation expense (note 2)	(193)	(95)	(44)	(69)	(401)
Balance at 31 March 2014	3,444	784	1,187	309	5,724

Included in the balance of operating leases are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is \$442 million (2013: \$2,289 million).

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

Assets under operating lease

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

Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
-----------------------------	-----------------------------	---------------------	---------------------

Note 14

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

Loans and investments without provisions for impairment	470	436	75	124
Loans and investments with provisions for impairment	186	248	98	119
Less provision for impairment	(105)	(156)	(63)	(68)
Loans and investments at recoverable amount	81	92	35	51
Total interests in associates and joint ventures accounted for using the equity method^{(1),(2)}	551	528	110	175

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

⁽²⁾ Included within this balance is \$506 million (2013: \$403 million) relating to interests in associates and \$45 million (2013: \$125 million) relating to interests in joint ventures in Consolidated Entity. Included within this balance is \$109 million (2013: \$128 million) relating to interests in associates and \$1 million (2013: \$47 million) relating to interests in joint ventures. All of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

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

Consolidated Entity's share of:

Profit or loss from continuing operations	6	42	–	13
Post-tax profit or loss from discontinued operations	8	–	–	–
Other comprehensive income	1	1	–	–
Total comprehensive income	15	43	–	13

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

Share incurred jointly with other investors	17	24	–	–
For which the Consolidated Entity is severally liable	9	12	–	–

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
Note 15				
Intangible assets				
Goodwill	318	308	–	–
Intangible assets with indefinite lives	242	222	–	–
Customer and servicing contracts	90	94	–	–
Other identifiable intangible assets	135	171	57	55
Total intangible assets	785	795	57	55

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

Reconciliation of the Consolidated Entity's movement in intangible assets:

	Goodwill \$m	Intangible assets with indefinite lives \$m	Customer and servicing contracts \$m	Other identifiable intangible assets \$m	Total \$m
Balance at 1 April 2012	336	224	111	203	874
Acquisitions	–	–	2	51	53
Adjustments to purchase consideration ⁽¹⁾	1	–	–	6	7
Disposals	(25)	–	(2)	(14)	(41)
Impairment	–	–	–	(27)	(27)
Amortisation expense (note 2)	–	–	(15)	(37)	(52)
Currency translation difference	(4)	(2)	(2)	(11)	(19)
Balance at 31 March 2013	308	222	94	171	795
Acquisitions	20	–	–	39	59
Reclassifications during the financial year	2	–	2	(4)	–
Adjustments to purchase consideration ⁽¹⁾	–	–	–	4	4
Disposals	(49)	(4)	–	(31)	(84)
Impairment	–	–	–	(20)	(20)
Amortisation expense (note 2)	–	–	(20)	(34)	(54)
Currency translation difference	37	24	14	10	85
Balance at 31 March 2014	318	242	90	135	785

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

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

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

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

Fair value less cost to sell calculations are determined using an earnings multiple approach applicable to that type of business. These have been determined by reference to historical company and industry experience and publicly available data.

Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
-----------------------------	-----------------------------	---------------------	---------------------

Note 16

Investments in subsidiaries

Investments at cost without provisions for impairment	–	–	3,990	3,562
Investments at cost with provisions for impairment	–	–	1,174	1,226
Less provisions for impairment	–	–	(576)	(545)
Investments at recoverable amount	–	–	598	681
Total investments in subsidiaries	–	–	4,588	4,243

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

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

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

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

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all entities is 100 per cent.

All material entities have a 31 March reporting date.

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 17

Deed of cross guarantee

On 26 March 2009 MBL, Macquarie Americas Holdings Pty Limited, Macquarie Corporate and Asset Finance Limited, Macquarie Property Investment Management Holdings Limited and Pacific Rim Operations Limited entered into a deed of cross guarantee under which each company guarantees the debts of the others. On 25 February 2010, Macquarie Australia Pty Limited entered the deed and on 22 March 2010 Boston Australia Pty Limited and MTF Holdings Pty Limited entered the deed. On 31 March 2014, Macquarie NZ Holdings Pty Ltd, Macquarie Mortgages Canada Holdings Pty Limited and Macquarie Leasing NSW Pty Limited entered the deed of cross guarantee. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

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

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

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

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

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

Note 17

Deed of cross guarantee continued

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	-----------------------------	-----------------------------	---------------------	---------------------

Note 18

Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

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

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

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

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

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

Note 19

Trading portfolio liabilities

Listed equity securities	1,849	1,029	1,849	1,029
Foreign government securities	363	179	363	179
Corporate securities	132	176	132	163
Commodities	115	–	–	–
Total trading portfolio liabilities	2,459	1,384	2,344	1,371

Note 20

Deposits

Interest bearing deposits

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

	Consolidated	Consolidated	Bank	Bank
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m

Note 21

Other liabilities

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

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

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

Note 22

Payables to financial institutions

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

Note 23

Other financial liabilities at fair value through profit or loss

Equity linked notes	640	878	1,662	698
Credit linked notes	297	–	297	–
Debt issued at fair value	–	41	–	41
Total other financial liabilities at fair value through profit or loss	937	919	1,959	739

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	-----------------------------	-----------------------------	---------------------	---------------------

Note 24

Debt issued at amortised cost

Debt issued at amortised cost ⁽¹⁾	37,255	31,826	20,508	16,306
Total debt issued at amortised cost	37,255	31,826	20,508	16,306

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

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

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

(In Australian dollar equivalent):

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

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

Note 25

Provisions

Provision for annual leave	46	48	26	28
Provision for long service leave	31	38	32	38
Provision for other employee entitlements	3	12	–	–
Provision for dividends	6	6	2	2
Total provisions	86	104	60	68

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

Note 26

Capital management strategy

The Bank and Consolidated Entity's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The Consolidated Entity's capital management objectives are to:

- continue to support the Consolidated Entity's credit rating;
- ensure sufficient capital resource to support the Consolidated Entity's business and operational requirements;
- maintain sufficient capital to exceed externally imposed capital requirements; and
- safeguard the Consolidated Entity's ability to continue as a going concern.

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. From 1 January 2013, the Bank reports to APRA under Basel III capital requirements and is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book. The capital ratios disclosed in this report are relevant for comparisons with banks regulated by APRA.

Regulatory capital requirements are measured for the Bank and certain subsidiaries which meet the definition of Extended Licensed Entities (Level 1 reporting), and for the Banking Group (Level 2 reporting). Level 2 consists of the Bank, its subsidiaries and its immediate parent less certain subsidiaries of the Bank which are deconsolidated for APRA reporting purposes. These include mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent at both Level 1 and Level 2, with at least 6 per cent of this capital in the form of Tier 1 capital and at least 4.5 per cent of this capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels.

The Banking Group's Tier 1 capital consists of share capital, retained earnings, certain reserves, hybrid instruments and deductions. The hybrid instruments include Macquarie Income Securities, Macquarie Income Preferred Securities and Exchangeable Capital Securities. Deductions from Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, APRA's Basel III rules require that equity investments and investments in subsidiaries that are insurance entities, fund management entities, special purpose securitisation entities and non-financial entities are fully deducted from Tier 1 capital. The Banking Group's Tier 2 capital includes term subordinated debt, certain reserves and deductions.

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 27

Loan capital

Subordinated debt

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is, and shall at all times be and remain, subordinated to the rights of all other present and future creditors of the Consolidated Entity. Details of selected capital instruments are discussed below:

Exchangeable Capital Securities

On 26 March 2012, the Bank, acting through its London Branch (MBL London) issued US\$250 million of Exchangeable Capital Securities (ECS).

The ECS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 10.25 per cent per annum, payable semi annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. If interest is not paid on the ECS, the Bank and MGL will be restricted from paying dividends or returning capital on their ordinary shares until the next interest payment date.

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid ordinary shares of MGL on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2017. The ECS may also be exchanged earlier on an

acquisition event (where a person acquires control of the Bank or MGL), where the Bank's common equity Tier 1 capital ratio falls below 5.125 per cent or where APRA determines the Bank would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL's ordinary shares will be issued at a 5 per cent discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange. No ECS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if ECS were exchanged at 31 March 2014 would be 5,067,970 (31 March 2013: 6,800,228). The maximum total number of MGL ordinary shares that can be issued on an exchange is 17,689,525.

The ECS will only be redeemable, subject to APRA's written approval, at the discretion of the Bank in limited circumstances, including following a change in law that has an impact on the regulatory or tax treatment of the ECS.

As at 31 March 2014, the remaining principal liability related to the ECS was US\$250 million (31 March 2013: US\$250 million).

Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
-----------------------------	-----------------------------	---------------------	---------------------

Note 27

Loan capital continued

Maturity and currency profiles of loan capital instruments

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

Less than 12 months	69	60	69	60
21 September 2020	968	808	968	808
7 April 2021	1,160	1,098	1,160	1,098
	2,197	1,966	2,197	1,966
Instrument with a conditional repayment obligation:				
ECS	270	240	270	240
Loan capital	2,467	2,206	2,467	2,206
Less directly attributable issue cost	(3)	(3)	(3)	(3)
Total loan capital⁽¹⁾	2,464	2,203	2,464	2,203

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

United States dollars	1,471	1,375	1,471	1,375
Euro	996	831	996	831
Australian dollars	–	–	–	–
Loan capital	2,467	2,206	2,467	2,206
Less directly attributable issue cost	(3)	(3)	(3)	(3)
Total loan capital by currency⁽¹⁾	2,464	2,203	2,464	2,203

⁽¹⁾ The balance is net of fair value hedge accounting adjustments.

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated and Bank		Consolidated and Bank	
	2014	2013	2014	2013
	Number	Number		
	of shares	of shares	\$m	\$m

Note 28

Contributed equity

Ordinary share capital

Opening balance of fully paid ordinary shares	501,561,948	501,561,948	7,578	7,578
Closing balance of fully paid ordinary shares	501,561,948	501,561,948	7,578	7,578

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

During the year ended 31 March 2010, the ultimate parent entity, MGL, introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff of the Consolidated Entity. Under MEREP the staff retained profit share is held in the shares of MGL by Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust). Where MEREP Awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the equity provided as a capital contribution from MGL. For the year ended 31 March 2014, MEREP related compensation expense and its related tax effects, treated as additional paid up capital totalled \$24,206,958 (2013: \$3,998,212) in the Consolidated Entity and \$4,966,205 in the Bank. For the year ended 31 March 2013, reversal of MEREP related compensation expense for not meeting the performance hurdles and its related tax effects treated as return of capital in the Bank totalled \$889,918. For further information regarding the terms and conditions of MEREP refer to note 33—Employee equity participation.

In November 1995, the Bank introduced an Employee Option Plan, as a replacement for the Bank's then closed partly paid share scheme. On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (MGESOP). Staff eligible to participate were those of Associate Director level and above and consultants to the Consolidated Entity. The options are measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods. Since 13 November 2007 the equity provided has been treated as an equity contribution from MGL. For the year ended 31 March 2014, MGESOP related compensation expense treated as additional paid up capital totalled \$315,316 in the Consolidated Entity and \$2,557 in the Bank. For the year ended 31 March 2013, reversal of MGESOP related compensation expense for not meeting the performance hurdles, treated as return of capital, totalled \$4,305,705 in the Consolidated Entity and \$2,569,539 in the Bank. In addition, pursuant to an amendment to the terms of the Macquarie Group Staff Share Acquisition Plan (MGSSAP) and Employee Share Plan (ESP) to allow the issue of new shares as an alternative to acquiring existing shares on-market, related compensation expense treated as additional paid up capital in the Consolidated Entity totalled \$528,865 (2013: \$419,881) and in the Bank \$527,900 (2013: \$418,895). Details of the MGESOP, MGSSAP and ESP are disclosed in note 33—Employee equity participation.

Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
-----------------------------	-----------------------------	---------------------	---------------------

Note 28

Contributed equity continued

Macquarie Income Securities

4,000,000 Macquarie Income Securities of \$100 each	400	400	400	400
Less transaction costs for original placement	(9)	(9)	(9)	(9)
Total Macquarie Income Securities	391	391	391	391

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

Convertible Debentures

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

As part of the issue of the Macquarie Income Preferred Securities (detailed in note 29 – Reserves, retained earnings and non-controlling interests) the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a subsidiary of the Bank. The convertible debentures, which eliminate on consolidation, currently pay a 6.177 per cent (2013: 6.177 per cent) semi-annual cumulative fixed rate distribution. The debentures mature on 15 April 2050, but may be redeemed, at the Bank's discretion, on 15 April 2020 or on any reset date thereafter. If redemption is not elected, then on 15 April 2020 and on each fifth anniversary thereafter, the debenture coupon will be reset to 2.35 per cent (2013: 2.35 per cent) per annum above the then prevailing five year benchmark sterling gilt rate. Following the redemption of 6,150 convertible debentures on 29 September 2009, 850 convertible debentures remain on issue.

The distribution policies for these instruments are included in note 5 - Dividends paid and distributions paid or provided for.

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

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

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

Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
-----------------------------	-----------------------------	---------------------	---------------------

Note 29

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Preferred Securities

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of Macquarie Income Preferred Securities (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (2013: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent (2013: 2.35 per cent) per annum above the then five-year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The instruments are reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with the NCI share of profit after tax. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

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

Macquarie Income Preferred Securities

Proceeds on issue of Macquarie Income Preferred Securities	109	107	–	–
Less issue costs	(1)	(1)	–	–
	108	106	–	–
Foreign currency translation reserve	(32)	(46)	–	–
Total Macquarie Income Preferred Securities	76	60	–	–

Other non-controlling interests

Ordinary share capital	1	29	–	–
Retained earnings	–	3	–	–
Total other non-controlling interests	1	32	–	–
Total non-controlling interests	77	92	–	–

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
--	-----------------------------	-----------------------------	---------------------	---------------------

Note 30

Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to related items in the statements of financial position as follows:

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

⁽¹⁾ Includes cash and other receivables.

⁽²⁾ Includes certificates of deposit, bank bills and treasury notes as per note 1(xx) – Summary of significant accounting policies.

⁽³⁾ Includes short-term debt securities as per note 1(xx) – Summary of significant accounting policies.

⁽⁴⁾ Includes amounts due from clearing houses as per note 1(xx) – Summary of significant accounting policies.

⁽⁵⁾ Cash and cash equivalents include \$4,093 million (31 March 2013: \$3,119 million) in the Consolidated entity and \$2,248 million (31 March 2013: \$2,560 million) in the Bank held by consolidated securitisation vehicles or in segregated deposit fund and escrow accounts which are restricted for use.

Reconciliation of profit after income tax to net cash flows from operating activities

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

Note 31

Related party information

Ultimate and immediate parent entities

The Bank's ultimate parent entity is MGL. The Bank's immediate parent entity is Macquarie B.H. Pty Ltd. Both MGL and Macquarie B.H. Pty Ltd are incorporated in Australia. MGL produces financial statements that are available for public use.

Transactions between the Consolidated Entity and the ultimate and immediate parent entities principally arise from the provision and repayment of loans and the provision of management and administration services.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of the tax funding agreement are set out in note 1(vii) – Summary of significant accounting policies. During the year ended 31 March 2014, current tax of the Consolidated Entity and the Bank attributed to MGL as the head entity of the tax consolidated group amounted to \$266 million liabilities (2013: \$146 million liabilities) and \$146 million liabilities (2013: \$29 million liabilities) respectively.

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

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
Amounts receivable ⁽¹⁾	111	142	83	107

⁽¹⁾ As described in note 1(xix) – Summary of significant accounting policies, the amounts receivable by the Bank includes \$98 million (2013: \$92 million) for amounts paid in advance for MEREP awards offered to their employees and yet to be recognised as a share-based payment expense.

Subsidiaries

Transactions between the Bank and its subsidiaries principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Bank except when the parties have the legal right and intention to offset.

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

The Bank has entered into derivative transactions with its subsidiaries to hedge their operations. The fair value of derivative financial instruments relating to transactions between the Bank and its subsidiaries at 31 March 2014 are \$573 million (2013: \$2,565 million) positive value and \$108 million (2013: \$438 million) negative value.

A list of material subsidiaries is set out in note 16—Investments in subsidiaries.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated	Consolidated	Bank	Bank
	2014	2013	2014	2013
	\$m	\$m	\$m	\$m

Note 31

Related party information continued

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

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

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

Amounts receivable	–	–	26,228	21,828
Amounts payable	–	–	(14,835)	(7,758)

Other related body corporate entities

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

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

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

Interest income received/receivable	11	22	91	68
Interest expense paid/payable	(200)	(116)	(24)	(96)
Fee and commission expense	(169)	(159)	(161)	(203)
Other operating expenses	(739)	(624)	(642)	(450)
Other income	1	1	3	1

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

Amounts receivable	2,133	918	1,946	887
Amounts payable	(7,443)	(5,456)	(6,833)	(5,250)

Consolidated	Consolidated	Bank	Bank
2014	2013	2014	2013
\$m	\$m	\$m	\$m

Note 31

Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures are eliminated where they are unrealised, to the extent of ownership interests held by the Consolidated Entity, in the consolidated income statement.

During the financial year, the following amounts of income or expense resulted from transactions with associates and joint ventures:

Interest income received/receivable	2	–	–	–
Fee and commission income/(expense) ⁽¹⁾	(9)	3	(52)	(32)
Other income	2	1	–	–
Gains/(losses) on sale of securities ⁽²⁾ (note 2)	9	51	59	(7)
Brokerage and commission expense	(5)	(3)	–	–
Dividends and distributions ⁽³⁾	40	42	33	30

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

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

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

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

Amounts receivable	412	304	389	302
Amounts payable	(217)	(110)	(147)	(110)

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 32

Key Management Personnel disclosure

Key Management Personnel

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

Executive Directors⁽¹⁾

N.W. Moore

G.C. Ward Managing Director and Chief Executive Officer

Non-Executive Directors

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

Former Non-Executive Directors

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

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the past two financial years ended 31 March 2014 and 31 March 2013, unless otherwise indicated.

Current Executives⁽¹⁾

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

Former Executives

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

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

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

Note 32

Key Management Personnel disclosure continued

Key Management Personnel remuneration

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

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

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

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

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

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

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April \$'000	Interest charged \$'000	Write-downs \$'000	Closing balance at 31 March \$'000
Total for Key Management Personnel and their related parties	2014	5,706	6	–	600
	2013	5,714	375	–	5,706
Total for Key Management Personnel⁽¹⁾	2014	5,706	6	–	600
	2013	5,714	375	–	5,706

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 32

Key Management Personnel disclosure continued

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

For the financial year ended 31 March 2014

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

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

(2) Or date of resignation if earlier.

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

For the financial year ended 31 March 2013

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

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

Note 32

Key Management Personnel disclosure continued

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

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

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

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

Executive Directors

N.W. Moore, G.C. Ward

Executives

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

Former Executives

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 33

Employee equity participation

Macquarie Group Employee Retained Equity Plan

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

Award Types under the MEREP

Restricted Share Units (RSUs)

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

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on MGL shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of MGL shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights on any underlying MGL shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs below).

Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs.

Restricted Shares

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

Note 33

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

The following is a summary of Awards which have been granted pursuant to the MEREP:

	Number of RSU Awards 2014	Number of RSU Awards 2013
RSUs on issue at the beginning of the financial year	10,092,603	7,806,417
Consolidation of one ordinary share into 0.9438 ordinary shares ⁽¹⁾	(563,232)	–
Granted during the financial year	2,356,880	3,783,350
Forfeited during the financial year	(376,884)	(421,239)
Vested RSUs withdrawn from the MEREP during the financial year	(2,159,620)	(1,351,936)
Transfers from related body corporate entities	59,074	276,011
RSUs on issue at the end of the financial year	9,408,821	10,092,603
RSUs vested and not withdrawn from the MEREP at the end of the financial year	8,327	7,878

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

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

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

	Number of PSU Awards 2014	Number of PSU Awards 2013
PSUs on issue at the beginning of the financial year	500,830	314,350
Adjustment of PSUs due to 0.9438 ordinary shares consolidation ⁽¹⁾	(29,043)	–
Granted during the financial year	117,796	333,907
Exercised during the financial year	(11,950)	–
Expired during the financial year	(89,868)	(40,168)
Transfers to related parties	–	(107,259)
PSUs on issue at the end of the financial year	487,765	500,830
PSUs exercisable at the end of the financial year	6,961	–

The weighted average fair value of the PSU Awards granted during the financial year was \$41.32 (2013: \$21.91).

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

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

⁽¹⁾ Consolidation applied to MGL shares held in the MEREP as at the record date for the consolidation

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 33

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

The awards are measured at their grant dates based on their fair value and for each PSU the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance. For the year ended 31 March 2014, compensation expense relating to the MEREP totalled \$112 million (2013: \$114 million).

Participation in the MEREP is currently provided to the following Eligible Employees:

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards);
- Executive Directors with pre-2009 retained DPS (which they elected to transition into the MEREP);
- staff other than Executive Directors with retained profit share (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed allocation of MEREP awards (Promotion Awards);
- Macquarie Group staff with retained commission (Commission Awards);
- Macquarie Group staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards);
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded either a fixed number of MEREP awards or a fixed Australian dollar value, depending on level (New Hire Awards);
- members of the MBL and MGL Executive Committees who are eligible for PSUs; and
- in limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Group upon the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

Vesting periods are as follows:

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

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

⁽²⁾ Vesting will occur on the first day of a staff trading window following 1 July of the specified year. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.

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

Note 33

Employee equity participation continued

In limited cases, the Application Form for awards may set out a different vesting period, in which case that period will be the vesting period for the Award. For example, staff in jurisdictions outside Australia may have a different vesting period due to local regulatory requirements.

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

Performance Share Units

- PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded. These hurdles are set out below. Hurdles are periodically examined by the BRC as part of their ongoing review of the remuneration approach, to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2014.

The hurdles are outlined below.

Performance hurdle 1

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 ordinary equity (ROE) over the vesting period (three and four years) compared to a reference group of global peers. A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent vesting at the 75th percentile.	The current reference group ⁽¹⁾ comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG.	The reference group comprises ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation, Suncorp Metway Limited, Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group AG, JP Morgan Chase, Morgan Stanley and UBS AG.

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

Performance hurdle 2

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

Other arrangements

There are certain arrangements with employees which take the form of a share-based payment but which are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however the arrangements have the same economic benefits as those held in the MEREP.

Compensation expense relating to these awards for the year ending 31 March 2014 was \$0.16 million (2013: \$0.24 million).

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 33

Employee equity participation continued

Option Plan

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

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

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

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

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

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

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

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

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

The weighted average remaining contractual life for the share options outstanding as at 31 March 2014 was 0.38 years (2013: 0.4 years). The weighted average remaining contractual life when analysed by exercise price range is:

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

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

There were no options issued in the financial year.

Note 33

Employee equity participation continued

Option Plan continued

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

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

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

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

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

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

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

Employee Share Plan

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

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

The latest offer under the ESP was made during November 2013. A total of 547 (2013: 426) staff participated in this offer. On 6 December 2013, the participants were each allocated 18 (2013: 30) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$53.70 (2012: \$32.85), a total of 9,846 (2013: 12,780) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

Historical Share Plans

Shares are no longer being issued or purchased under the Staff Share Acquisition Plan nor the Non-Executive Director Share Acquisition Plan. However employees and Non-Executive Directors still hold shares issued in previous years.

Other plans

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

	Consolidated 2014 \$m	Consolidated 2013 \$m	Bank 2014 \$m	Bank 2013 \$m
Note 34				
Contingent liabilities and commitments				
The following contingent liabilities and commitments exclude derivatives.				
Contingent liabilities exist in respect of:				
Guarantees	466	545	885	750
Letters of credit	453	272	950	610
Performance related contingents	342	228	342	228
Indemnities	44	1	93	58
Total contingent liabilities⁽¹⁾	1,305	1,046	2,270	1,646
Commitments exist in respect of:				
Undrawn credit facilities	3,166	2,374	2,536	2,151
Forward asset purchases	87	17	11	12
Total commitments⁽²⁾	3,253	2,391	2,547	2,163
Total contingent liabilities and commitments	4,558	3,437	4,817	3,809

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

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

Note 35

Lease commitments

Non-cancellable operating leases expiring:

Not later than one year	3	4	–	–
Later than one year and not later than five years	3	6	–	–
Later than five years	1	1	–	–
Total operating lease commitments	7	11	–	–

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

Note 36

Structured entities

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

Securitisations

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

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

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

Asset-backed financing

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

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

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

Investment funds

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

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

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

At 31 March 2014, the Consolidated Entity's interests in unconsolidated investment funds is immaterial.

Interests held

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and currency swaps) and positions where the Consolidated Entity: (i) creates rather than absorbs variability of the unconsolidated SE (e.g. purchase of credit protection under a credit default swap); (ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs; and (iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 36

Structured entities continued

The following table presents the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs as at 31 March 2014:

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

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

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

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

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

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

Note 37

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Consolidated Entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 1(xi) – Summary of significant accounting policies:

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from the consolidated mortgage securitisation vehicles and other structured products which are subject to variable interest rates. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps and cross-currency swaps.

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

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

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

Fair value hedges: The consolidated entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates; and
- foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$153 million positive value (2013: \$97 million negative value).

During the year fair value gains on the hedging instruments of \$250 million have been recognised (2013: \$236 million losses), offset by \$246 million (2013: \$221 million gains) of losses on the hedged item.

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

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

A proportion of the Consolidated Entity's borrowings amounting to \$3,076 million (2013: \$1,798 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of \$278 million (2013: \$14 million gains) on translation of the foreign currency borrowing to Australian Dollars at the end of the reporting period is recognised in other comprehensive income.

The types of derivatives which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross-currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38

Financial risk management

Risk Management Group

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are market risk, equity risk, credit risk, liquidity risk, operational risk, legal risk and compliance risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group (RMG), and in the case of legal risk, Legal and Governance, to ensure appropriate assessment and management of these risks.

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

Note 38.1

Credit risk

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

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

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Exposures for derivatives depend on potential future asset prices. To mitigate credit risk, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

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

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

All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and ensure provisioning is adequate.

A review of the credit portfolio that involves monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities, interests in associates and joint ventures or bank notes and coins.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

Maximum exposure to credit risk

The tables below detail the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets before the benefit of collateral and credit enhancements held.

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

Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commitments and contingent liabilities \$m	Total \$m
Consolidated 2014				
60	–	–	–	8,594
436	–	–	202	13,078
32,777	574	408	1,900	37,269
33,273	574	408	2,102	58,941
5	61	–	–	809
287	–	–	38	2,894
537	10	471	275	3,685
829	71	471	313	7,388
6	21	–	–	185
3,816	188	–	540	16,285
4,501	62	108	472	9,498
8,323	271	108	1,012	25,971
25	–	–	–	1,055
3,275	–	–	82	9,793
11,445	57	1,257	1,050	17,507
14,745	57	1,257	1,132	28,355
57,170	973	2,244	4,558	120,654

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

Maximum exposure to credit risk continued

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

Maximum exposure to credit risk continued

The tables below detail the concentration of credit exposures of the Bank's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Bank's assets.

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

Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate entities \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
					Bank 2014
60	–	–	–	–	8,593
436	–	–	–	202	12,202
20,845	624	358	13,755	1,504	38,812
21,341	624	358	13,755	1,706	59,607
1	61	–	–	–	710
222	–	–	–	37	2,401
334	10	431	1,583	316	4,772
557	71	431	1,583	353	7,883
–	21	–	–	–	179
3,975	185	–	–	540	16,064
3,519	–	91	6,242	433	14,395
7,494	206	91	6,242	973	30,638
–	–	–	–	–	687
1,749	–	–	–	77	7,610
3,837	57	1,149	4,648	1,708	12,759
5,586	57	1,149	4,648	1,785	21,056
34,978	958	2,029	26,228	4,817	119,184

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

Maximum exposure to credit risk continued

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

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

Loan assets held at amortised cost ⁽¹⁾ \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate entities \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
					Bank 2013
153	395	–	–	–	10,341
308	81	–	–	33	13,083
13,740	1,215	123	13,210	1,329	32,285
14,201	1,691	123	13,210	1,362	55,709
–	–	–	–	–	783
116	–	–	–	–	1,533
251	–	291	1,046	360	3,501
367	–	291	1,046	360	5,817
–	61	–	–	–	143
2,984	518	–	–	124	14,960
3,118	1	114	1,981	631	9,234
6,102	580	114	1,981	755	24,337
–	–	–	–	–	345
1,697	–	–	–	85	7,252
3,286	70	466	3,554	1,247	11,611
4,983	70	466	3,554	1,332	19,208
25,653	2,341	994	19,791	3,809	105,071

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

Collateral and credit enhancements held

Receivables from financial institutions

Cash collateral on securities borrowed and reverse repurchase agreements balance is included in receivables from financial institutions. Securities borrowed and reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

Loan assets held at amortised cost

Residential mortgage loans

The Consolidated Entity's residential mortgages are secured by fixed charges over a borrower's property. Further Macquarie obtains lender's mortgage insurance (LMI) to cover the majority of the mortgage portfolio to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. Substantially all the Americas portfolio consists of Canadian mortgages. Included in the mortgage loan balance is \$10,027 million (2013: \$10,774 million) which have been securitised by consolidated SPEs. Further, \$3,853 million (2013: \$5,863 million) are held by either a government-backed securitisation vehicle or financial institutions, not consolidated by the Consolidated Entity.

The Bank's residential mortgages, all originated in Australia, are secured by fixed charges over a borrower's property and LMI as disclosed above.

The tables below provide information on loan to value ratios (LVRs) determined using current loan balances and the valuation at the time the mortgage was financed.

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

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Relationship Banking provides residential and commercial mortgages to clients in Australia, usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property. Of the mortgage balance of \$1,199 million (2013: \$840 million), \$109 million (2013: \$103 million) has a LVR of 50 per cent or less, \$615 million (2013: \$532 million) has an LVR of between 50 and 75 per cent and \$462 million, (2013: \$193 million) an LVR of between 75 and 100 per cent. \$13 million (2013: \$12 million) is only partly secured by real estate with an LVR greater than 100 per cent.

Investment and insurance premium lending

Macquarie lends to clients for investment and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the investment as collateral. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. For the Consolidated Entity, of the investment and insurance premium lending portfolio of \$1,109 million (2013: \$1,541 million), \$728 million (2013: \$1,473 million) is fully collateralised. For the Bank, of the investment and insurance premium lending portfolio of \$1,323 million (2013: \$1,428 million), \$942 million (2013: \$1,360 million) is fully collateralised.

Lease and retail financing

Macquarie leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying fixed assets are held by Macquarie as collateral. For the Consolidated Entity, of the lease and retail finance portfolio of \$10,836 million (2013: \$9,364 million), the credit exposure after considering the depreciated value of collateral is \$3,087 million (2013: \$2,584 million). For the Bank, of the lease and retail finance portfolio of \$874 million (2013: \$973 million), the credit exposure after considering the depreciated value of collateral is \$222 million (2013: \$242 million).

Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured rights over specified assets of the counterparty, often in the form of commercial property and land rights. Of the term lending of \$15,659 million (2013: \$13,068 million), the credit exposure after collateral and credit enhancements is \$2,997 million (2013: \$2,474 million).

Additional collateral

Macquarie excludes other types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

Other financial assets at fair value through profit or loss

Included in Other financial assets at fair value through profit or loss is financing provided to clients for investing, which had a carrying value in the Consolidated Entity at the balance date of \$644 million (2013: \$1,281 million) and in the Bank of \$625 million (2013: \$1,215 million). This amount is secured by the underlying securities investments or cash deposits of the investors.

Derivative financial instruments

Exchange traded derivatives contracts have limited credit risk as counterparties have to be members of the exchange and demonstrate they have adequate resources to fulfill obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation/reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2014 of \$2,533 million (2013: \$2,587 million). The Consolidated Entity has also placed margins on House and Client positions with exchanges, the balance at 31 March 2014 being \$2,702 million (2013: \$3,287 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

The Bank held exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2014 of \$2,326 million (2013: \$2,336 million). The Bank has also placed margins on House and Client positions with exchanges, the balance at 31 March 2014 being \$2,221 million (2013: \$2,446 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

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

As at 31 March 2014, the Consolidated Entity held OTC contracts with a positive replacement value of \$10,001 million (2013: \$9,753 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$6,158 million (2013: \$6,116 million) and margins held (excluding the impact of over-collateralisation) of \$1,153 million (2013: \$681 million). In addition, the Consolidated Entity has placed collateral of \$1,582 million (2013: \$2,036 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts. As at 31 March 2014, the Bank held OTC contracts with a positive replacement value of \$7,379 million (2013: \$8,894 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$5,655 million (2013: \$5,523 million) and margins held (excluding the impact of over-collateralisation) of \$1,058 million (2013: \$615 million). In addition, the Bank has placed collateral of \$1,461 million (2013: \$2,010 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts..

Other assets

In the Consolidated Entity, brokerage receivables of \$2,436 million (2013: \$2,256 million), and in the Bank of \$2,291 million (2013: \$2,005 million), are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). The Consolidated Entity and the Bank hold the underlying equity security or cash until settled, which is usually less than three days after trade.

Debt investments securities available for sale

Included in this balance are holdings of \$nil (2013: \$683 million) issued by Australian banks which are subject to an Australian Government Guarantee. A further \$255 million (2013: \$243 million) is secured by specified assets under covered bonds.

Credit commitments and contingent liabilities

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

Note 38.1

Credit risk continued

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

Credit Quality – Consolidated 2014

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

Credit Quality – Consolidated 2013

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

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

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

Note 38.1

Credit risk continued

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

Credit Quality – Bank 2014

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

Credit Quality – Bank 2013

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

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

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

Note 38.1

Credit risk continued

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

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

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

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.1

Credit risk continued

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

Repossessed collateral

In the event of customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. As at 31 March 2014, the Consolidated Entity had taken possession of fixed assets and property assets with a carrying value of \$178 million (2013: \$210 million).

Liquidity management

The Consolidated Entity's liquidity risk management framework ensures that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, MBL Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer and Business Group Heads. RMG provides independent prudential oversight of liquidity risk management, including the validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

Note 38.2

Liquidity risk

Liquidity policy

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. MBL's risk appetite is set so that MBL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited reduction in franchise businesses.

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

Scenario analysis

Scenario analysis is central to the Consolidated Entity's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide and firm-specific crises. The objective of this modeling is to ensure the Consolidated Entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

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

Liquid asset holdings

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

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

Liquidity contingency plan

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

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

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

Funds transfer pricing

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.2

Liquidity risk continued

Contractual undiscounted cash flows

The following tables below summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations.

Repayments which are subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity - the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

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
					Consolidated 2014	
Trading portfolio liabilities	–	2,459	–	–	–	2,459
Derivative financial instruments (trading)	–	11,478	–	–	–	11,478
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	1,758	1,870	3,436	910	7,974
Contractual amounts receivable	–	(1,677)	(1,890)	(3,469)	(916)	(7,952)
Deposits	32,614	5,042	4,290	460	14	42,420
Other financial liabilities ⁽¹⁾	–	7,030	–	–	–	7,030
Payables to financial institutions	4,397	8,871	513	2,132	919	16,832
Other financial liabilities at fair value through profit or loss	–	222	237	187	303	949
Due to related body corporate entities	4,705	223	1,364	435	909	7,636
Debt issued at amortised cost ⁽²⁾	–	8,581	8,345	15,685	12,065	44,676
Loan Capital	–	80	136	842	2,189	3,247
Total undiscounted cash flows	41,716	44,067	14,865	19,708	16,393	136,749
Contingent liabilities	–	1,305	–	–	–	1,305
Commitments	–	2,665	199	384	–	3,253
Total undiscounted contingent liabilities and commitments⁽³⁾	–	3,970	199	384	–	4,558

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

(2) Included in this balance is \$19,139 million (2013: \$15,033 million) payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in this maturity analysis.

(3) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.2

Liquidity risk continued

Contractual undiscounted cash flows continued

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

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

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

(3) Included in this balance is \$15,033 million payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in this maturity analysis.

(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

Note 38.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
						Bank 2014
Trading portfolio liabilities	–	2,344	–	–	–	2,344
Derivative financial instruments (trading)	–	11,240	–	–	–	11,240
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	642	458	1,692	522	3,314
Contractual amounts receivable	–	(601)	(538)	(1,854)	(564)	(3,557)
Deposits	31,937	5,041	4,289	460	14	41,741
Other financial liabilities ⁽¹⁾	–	4,385	–	–	–	4,385
Payables to financial institutions	4,381	9,645	197	1,500	839	16,562
Other financial liabilities at fair value through profit or loss	–	786	741	131	303	1,961
Due to subsidiaries	10,803	44	3,964	27	17	14,855
Due to related body corporate entities	3,046	200	1,358	134	2,233	6,971
Debt issued at amortised cost	–	7,736	3,423	8,324	1,966	21,449
Loan Capital	–	80	136	842	2,189	3,247
Total undiscounted cash flows	50,167	41,542	14,028	11,256	7,519	124,512
Contingent liabilities	–	2,270	–	–	–	2,270
Commitments	–	2,061	163	323	–	2,547
Total undiscounted contingent liabilities and commitments⁽²⁾	–	4,331	163	323	–	4,817

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

⁽²⁾ Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

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

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

⁽²⁾ Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.3

Market risk

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

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

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

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions; and
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

Value-at-Risk (VaR) figures (1 day, 99 percent confidence level)

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

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

Note 38.3

Market risk continued

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

Value-at-Risk

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

Interest rate risk

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

Foreign currency risk

The Consolidated Entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of its investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

In order to manage this risk, the Consolidated Entity has a policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian Accounting Standards and offset movements on the net assets within foreign operations and are transferred to the foreign currency translation reserve.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading divisions is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below.

The hedging policy of the group is designed to reduce the sensitivity of the group's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 38.3

Market risk continued

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD, GBP, CAD and EUR.

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

Note 38.3

Market risk continued

Equity price risk

The tables below indicate the equity markets to which the Consolidated Entity and the Bank had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Geographic region	2014			2013		
	Movement in equity price %	Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m	Movement in equity price %	Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m
Listed						Consolidated
Australia	+10	–	6.5	+10	0.8	8.0
Asia Pacific	+10	–	–	+10	–	–
Europe, Middle East and Africa	+10	1.8	0.6	+10	2.9	1.2
Americas	+10	–	1.7	+10	–	7.9
Unlisted	+10	0.6	17.5	+10	0.8	15.8
Listed						
Australia	-10	–	(6.5)	-10	(0.7)	(8.0)
Asia Pacific	-10	–	–	-10	–	–
Europe, Middle East and Africa	-10	(1.8)	(0.6)	-10	(2.9)	(1.2)
Americas	-10	–	(1.7)	-10	–	(7.9)
Unlisted	-10	(0.6)	(17.5)	-10	(0.1)	(15.8)
Listed						Bank
Australia	+10	–	6.5	+10	0.8	7.9
Asia Pacific	+10	–	–	+10	–	–
Europe, Middle East and Africa	+10	1.8	0.6	+10	2.9	1.2
Americas	+10	–	1.3	+10	–	6.9
Unlisted	+10	0.6	4.6	+10	0.8	5.2
Listed						
Australia	-10	–	(6.5)	-10	(0.7)	(7.9)
Asia Pacific	-10	–	–	-10	–	–
Europe, Middle East and Africa	-10	(1.8)	(0.6)	-10	(2.9)	(1.2)
Americas	-10	–	(1.3)	-10	–	(6.9)
Unlisted	-10	(0.6)	(4.6)	-10	(0.1)	(5.2)

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 39

Fair values of financial assets and liabilities

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

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

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

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

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

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt;

- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty;
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations;
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA).

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

Note 39

Fair values of financial assets and liabilities continued

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

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates;
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower;
- the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread; and
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 39

Fair values of financial assets and liabilities continued

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

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

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

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

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

Note 39

Fair values of financial assets and liabilities continued

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets				
			Consolidated 2014	
Trading portfolio assets	13,909	7,029	702	21,640
Derivative assets	589	11,799	80	12,468
Investment securities available for sale	8,225	3,550	407	12,182
Other financial assets at fair value through profit or loss	229	1,813	153	2,195
Other financial assets ⁽¹⁾	353	762	–	1,115
Total assets	23,305	24,953	1,342	49,600
Liabilities				
Trading portfolio liabilities	1,086	1,373	–	2,459
Derivative liabilities	738	10,924	86	11,748
Other financial liabilities at fair value through profit or loss	–	905	32	937
Other financial liabilities ⁽¹⁾	351	733	–	1,084
Total liabilities	2,175	13,935	118	16,228
Assets				
			Consolidated 2013	
Trading portfolio assets	13,694	4,906	253	18,853
Derivative assets	2,268	12,269	58	14,595
Investment securities available for sale	11,121	2,801	268	14,190
Other financial assets at fair value through profit or loss	1,115	3,461	69	4,645
Other financial assets ^{(1),(2)}	407	803	–	1,210
Total assets	28,605	24,240	648	53,493
Liabilities				
Trading portfolio liabilities	522	862	–	1,384
Derivative liabilities	2,397	12,284	44	14,725
Other financial liabilities at fair value through profit or loss	–	849	70	919
Other financial liabilities ^{(1),(2)}	404	777	–	1,181
Total liabilities	3,323	14,772	114	18,209

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 39

Fair values of financial assets and liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Assets				Bank 2014
Trading portfolio assets	13,167	5,632	673	19,472
Derivative assets	634	10,658	299	11,591
Investment securities available for sale	8,169	2,808	219	11,196
Other financial assets at fair value through profit or loss	201	1,757	136	2,094
Total assets	22,171	20,855	1,327	44,353
Liabilities				
Trading portfolio liabilities	1,070	1,274	–	2,344
Derivative liabilities	841	10,583	74	11,498
Other financial liabilities at fair value through profit or loss	–	1,927	32	1,959
Total liabilities	1,911	13,784	106	15,801
Assets				Bank 2013
Trading portfolio assets	12,891	3,206	226	16,323
Derivative assets	2,245	10,972	296	13,513
Investment securities available for sale	11,055	4,461	125	15,641
Other financial assets at fair value through profit or loss	1,043	2,273	42	3,358
Total assets	27,234	20,912	689	48,835
Liabilities				
Trading portfolio liabilities	508	863	–	1,371
Derivative liabilities	2,393	12,165	30	14,588
Other financial liabilities at fair value through profit or loss	–	669	70	739
Total liabilities	2,901	13,697	100	16,698

This page has been intentionally left blank.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 39

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and for the Bank for the financial years ended 31 March 2014 and 31 March 2013:

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

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

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

Other financial assets at fair value through profit or loss \$m	Other financial liabilities at fair value through profit or loss \$m	Derivative financial instruments (net replacement values) ⁽²⁾ \$m	Total \$m
Consolidated 2014			
69	(70)	14	534
62	–	(35)	563
(41)	40	(2)	(197)
–	–	(5)	(1)
–	2	(19)	(20)
57	–	11	396
–	–	(1)	(91)
6	(4)	31	44
–	–	–	(4)
153	(32)	(6)	1,224
1	(4)	25	32
Consolidated 2013			
160	(110)	33	719
–	–	11	265
(79)	–	(11)	(487)
–	–	(9)	(9)
(10)	40	4	34
–	–	(2)	106
–	1	(28)	(147)
(2)	(1)	16	22
–	–	–	31
69	(70)	14	534
2	(1)	6	31

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 39

Fair values of financial assets and liabilities continued

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

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

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

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

Other financial assets at fair value through profit or loss \$m	Other financial liabilities at fair value through profit or loss \$m	Derivative financial instruments (net replacement values) ⁽²⁾ \$m	Total \$m
			Bank 2014
42	(70)	266	589
61	–	(39)	480
(27)	42	(10)	(116)
–	–	(5)	(1)
–	–	(19)	(19)
57	–	–	361
–	–	–	(90)
3	(4)	32	33
–	–	–	(16)
136	(32)	225	1,221
–	(4)	26	24
			Bank 2013
131	(110)	258	645
–	–	14	199
(74)	–	(8)	(230)
–	–	(9)	(9)
(10)	40	4	34
–	1	(7)	150
–	–	(2)	(199)
(5)	(1)	16	12
–	–	–	(13)
42	(70)	266	589
(2)	–	5	29

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 39

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

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

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

Unrecognised gains

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

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

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

Note 39

Fair values of financial assets and liabilities continued

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques such as discounted cashflows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss	Equity	Profit or loss	Equity
	\$m	\$m	\$m	\$m
Product type				
Equity and equity linked products	–	10	–	(10)
Other products	17	–	(11)	–
Total	17	10	(11)	(10)
Product type				
Equity and equity linked products	15	11	(14)	(11)
Other products	27	–	(24)	–
Total	42	11	(38)	(11)
Product type				
Equity and equity linked products	(2)	2	2	(2)
Other products	11	–	(11)	–
Total	9	2	(9)	(2)
Product type				
Equity and equity linked products	11	1	(10)	(1)
Other products	20	–	(18)	–
Total	31	1	(28)	(1)

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations and the valuation techniques used to measure fair value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	Range of inputs	
					Minimum value	Maximum value
					As at 31 Mar 2014	
Equity and equity linked products	179	34	Discounted cash flows	Discount rate	13.0%	13.0%
			Pricing model	Volatility	9.2%	95.0%
				Correlation	0.07	0.07
			Market comparability	Price in %	(5.9)%	25.0%
Other products	1,163	84	Pricing model	Volatility	7.0%	93.5%
				Correlation	0.00	1.00
			Market comparability	Price in %	7.0%	214.0%
Total	1,342	118				

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 39

Fair values of financial assets and liabilities continued

Significant unobservable inputs continued

Correlation

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

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Forward prices

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

Inputs for unlisted equity securities

Unlisted equity instruments are generally valued based on earning multiples of comparable companies. Significant unobservable inputs may include earnings before interest, taxes, depreciation and amortisation (EBITDA) multiple, discount rate, and forecast earnings of the investee companies.

Note 40

Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the balance sheet when they meet the criteria described in Note 1(xxiv). The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not qualify for offsetting in the balance sheet. The tables exclude amounts not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the entity, refer to note 38.1 for information on credit risk management.

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments \$m	Cash and other financial collateral \$m	Net amount \$m
						Consolidated 2014 212
Receivables from financial institutions ⁽¹⁾	8,535	(1)	8,534	(696)	(7,626)	
Derivative assets	13,396	(1,881)	11,515	(8,285)	(1,153)	2,077
Other assets	3,554	(2,075)	1,479	(55)	(1)	1,423
Loan assets held at amortised cost	139	(139)	–	–	–	–
Other financial assets at fair value through profit or loss	1,377	(1,264)	113	–	–	113
Due from related body corporate entities	10,791	(9,249)	1,542	–	–	1,542
Total assets	37,792	(14,609)	23,183	(9,036)	(8,780)	5,367
Derivative liabilities	(13,124)	1,879	(11,245)	8,285	1,285	(1,676)
Deposits	(205)	169	(36)	–	1	(35)
Other liabilities	(3,588)	2,129	(1,459)	55	–	(1,404)
Payables to financial institutions ⁽²⁾	(7,300)	1	(7,299)	696	6,587	(16)
Other financial liabilities at fair value through profit or loss	(1,150)	1,150	–	–	–	–
Due to related body corporate entities	(14,159)	9,249	(4,910)	–	–	(4,910)
Debt issued at amortised cost	(32)	32	–	–	–	–
Total liabilities	(39,558)	14,609	(24,949)	9,036	7,872	(8,041)
						Consolidated 2013 204
Receivables from financial institutions ⁽¹⁾	5,528	–	5,528	(507)	(4,817)	
Derivative assets	12,810	(1,492)	11,318	(8,704)	(681)	1,933
Other assets	2,291	(1,372)	919	(76)	(4)	839
Loan assets held at amortised cost	496	(421)	75	–	(69)	6
Other financial assets at fair value through profit or loss	1,262	(1,188)	74	–	–	74
Due from related body corporate entities	8,020	(7,375)	645	–	–	645
Total assets	30,407	(11,848)	18,559	(9,287)	(5,571)	3,701
Derivative liabilities	(13,269)	1,492	(11,777)	8,704	1,843	(1,230)
Deposits	(245)	171	(74)	1	73	–
Other liabilities	(3,948)	2,612	(1,336)	75	–	(1,261)
Payables to financial institutions ⁽²⁾	(5,237)	172	(5,065)	507	4,456	(102)
Due to related body corporate entities	(11,087)	7,375	(3,712)	–	–	(3,712)
Debt issued at amortised cost	(26)	26	–	–	–	–
Total liabilities	(33,812)	11,848	(21,964)	9,287	6,372	(6,305)

⁽¹⁾ Included within this balance are reverse repurchase arrangements and other similar secured lending.

⁽²⁾ Included within this balance are repurchase arrangements and other similar secured borrowing.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 40

Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments \$m	Cash and other financial collateral \$m	Net amount \$m
Receivables from financial institutions ⁽¹⁾	8,535	(1)	8,534	(696)	(7,626)	Bank 2014 212
Derivative assets	12,300	(1,727)	10,573	(7,607)	(1,058)	1,908
Other assets	1,043	(693)	350	(3)	–	347
Loan assets held at amortised cost	54	(54)	–	–	–	–
Other financial assets at fair value through profit or loss	228	(115)	113	–	–	113
Due from related body corporate entities	10,569	(9,132)	1,437	–	–	1,437
Due from subsidiaries	37,488	(17,655)	19,833	–	–	19,833
Total assets	70,217	(29,377)	40,480	(8,306)	(8,684)	23,850
Derivative liabilities	(12,053)	1,727	(10,326)	7,607	1,179	(1,540)
Deposits	(125)	115	(10)	–	–	(10)
Other liabilities	(1,196)	747	(449)	3	–	(446)
Payables to financial institutions ⁽²⁾	(7,300)	1	(7,299)	696	6,587	(16)
Due to related body corporate entities	(13,809)	9,132	(4,677)	–	–	(4,677)
Due to subsidiaries	(25,703)	17,655	(8,048)	–	–	(8,048)
Total liabilities	(60,186)	29,377	(30,809)	8,306	7,766	(14,737)
Receivables from financial institutions ⁽¹⁾	5,527	–	5,527	(507)	(4,817)	Bank 2013 203
Derivative assets	12,810	(1,492)	11,318	(8,704)	(681)	1,933
Other assets	976	(687)	289	(11)	–	278
Loan assets held at amortised cost	345	(342)	3	–	–	3
Other financial assets at fair value through profit or loss	2	(2)	–	–	–	–
Due from related body corporate entities	7,639	(7,149)	490	–	–	490
Due from subsidiaries	29,062	(14,358)	14,704	–	–	14,704
Total assets	56,361	(24,030)	32,331	(9,222)	(5,498)	17,611
Derivative liabilities	(13,269)	1,492	(11,777)	8,704	1,843	(1,230)
Deposits	(118)	118	–	–	–	–
Other liabilities	(1,118)	741	(377)	11	–	(366)
Payables to financial institutions ⁽²⁾	(5,182)	172	(5,010)	507	4,456	(47)
Due to related body corporate entities	(10,839)	7,149	(3,690)	–	–	(3,690)
Due to subsidiaries	(20,790)	14,358	(6,432)	–	–	(6,432)
Total liabilities	(51,316)	24,030	(27,286)	9,222	6,299	(11,765)

⁽¹⁾ Included within this balance are reverse repurchase arrangements and other similar secured lending.

⁽²⁾ Included within this balance are repurchase arrangements and other similar secured borrowing.

Note 40

Offsetting financial assets and financial liabilities continued

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 1(xxii) "Offsetting financial instruments" and are limited to the gross carrying value of the financial statements. Therefore, when an asset is offset by a liability and the asset carrying value exceeds the liability carrying value, then the net amount presented for the asset will be the difference and for the liability will be nil.

Amounts subject to enforceable netting arrangements

Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty in the event of default or other pre determined events, such that their potential effect on the Consolidated Entity's and the Bank's financial position in that circumstance is to settle as one arrangement.

'Other recognised financial instruments' discloses other financial instruments recognised on balance sheet and 'Cash and other financial collateral' discloses amounts received or pledged in relation to the gross amounts of assets and liabilities. Both are subject to enforceable netting arrangements but are not offset due to the rights of set off applying only upon default or other predetermined events. This excludes non-financial collateral

The amounts subject to enforceable netting arrangements but not set off on the balance sheet have been limited to the net amount presented on the balance sheet so as not to include effects of over-collateralisation.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 41

Transfers of financial assets

Transferred financial assets that are derecognised

The Consolidated Entity and Bank may enter into transactions in the normal course of business that transfer financial assets to other entities. When the financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. There were no transfers of financial assets where the Consolidated Entity retained material continuing involvement at reporting date..

The Bank holds some securitisation interests at 31 March 2014 in vehicles wholly containing mortgages transferred by the Bank after it acquired the securitisation interests. The interests have a carrying amount, and maximum exposure to loss, of \$372 million (2013: \$479 million) as at 31 March 2014 and a fair value that approximates the carrying amount. Income of \$19 million (2013: \$21 million) was generated from securitisation interests during the year and \$61 million (2013: \$59 million) cumulative

Transferred financial assets that are not derecognised

When financial assets are transferred but not derecognised, this is due to retaining exposure to substantially all the risks and rewards of ownership of the transferred assets through repurchase and securities lending agreements, asset swaps or interests in securitisations.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity and Bank do not have legal rights to these assets but have full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

Interests in securitisations

Financial assets (principally mortgage loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Bank is entitled to any residual income of a securitisation vehicle, the Bank continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

Written put options

When financial assets are transferred but continue to be recognised to the extent of continuing involvement, this is due to some but not substantially all of the risks and rewards of ownership being transferred, and control of the asset being retained. Examples of such transactions include transfers involving written put options or other instruments linked to the performance of the asset and are not priced at fair value.

Note 41

Transfers of financial assets continued

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

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

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

⁽²⁾ As a result of an asset swap, included in the carrying amount of associated liabilities is \$919 million (2013: \$749 million) that will be settled partly by the transferred assets with a carrying amount of \$919 million (2013: \$749 million). The Bank has provided a guarantee to the extent of \$493 million, and has given \$493 million cash collateral to the counterparty that has been set off against the associated liability. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

⁽³⁾ This disclosure is required only in respect of transfers that fail derecognition under the continuing involvement model.

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 41

Transfers of financial assets continued

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

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

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

⁽²⁾ As a result of an asset swap, included in the carrying amount of associated liabilities is \$919 million (2013: \$749 million) that will be settled partly by the transferred assets with a carrying amount of \$919 million (2013: \$749 million). The Bank has provided a guarantee to the extent of \$493 million, and has given \$493 million cash collateral to the counterparty that has been set off against the associated liability. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

Note 42

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Consolidated Entity and the Bank, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

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

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

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

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

Notes to the financial statements

for the financial year ended 31 March 2014

continued

Note 43

Acquisitions and disposals of subsidiaries and businesses

Significant entities or businesses acquired or consolidated due to acquisition of control

There were no significant entities or businesses acquired or consolidated due to acquisition of control during the period.

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

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

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

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

The operating results of the acquisitions have not had a material impact on the results of the Consolidated Entity.

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above. The goodwill acquired during the current financial year has arisen due to the value of the businesses acquired over their individual asset values and synergies the Consolidated Entity expects to realise from the acquisitions.

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

Note 43

Acquisitions and disposals of subsidiaries and businesses continued

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

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

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

Bavarian Geothermal Energy Group Limited, Macquarie Visor, Macquarie European Alpha Fund, Macquarie Private Wealth Inc, Macquarie Precision Marketing (Japan) Limited and Macquarie Precision Marketing (Australia) Limited.

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

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

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

Note 44

Events after the reporting period

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

Macquarie Bank Limited

Directors' declaration

In the Directors' opinion:

- a) the financial statements and notes set out on pages 39 to 157 are in accordance with the *Corporations Act 2001 (Cth)*, including:
 - (i) complying with the accounting standards; and
 - (ii) giving a true and fair view of the Bank and Consolidated Entity's financial position as at 31 March 2014 and performance for the financial year ended on that date; and
- b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable; and
- c) the financial statements also comply with International Financial Reporting Standards (see note 1(i) set out on page 46; and
- d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 17 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 17.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001 (Cth)*.

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



H Kevin McCann AM
Independent Director and
Chairman



Greg Ward
Managing Director and
Chief Executive Officer

Sydney
2 May 2014

Independent auditor's report to the members of Macquarie Bank Limited



Report on the financial report

We have audited the accompanying financial report of Macquarie Bank Limited (the Bank), which comprises of the statements of financial position as at 31 March 2014, and the income statements, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Bank Limited and the Macquarie Bank Group (the Consolidated Entity). The Consolidated Entity comprises the Bank and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Liability limited by a scheme approved under Professional Standards Legislation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- a) the financial report of Macquarie Bank Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Bank's and Consolidated Entity's financial position as at 31 March 2014 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards – including the Australian Accounting Interpretations and the Corporations Regulations 2001, and
- b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 28 of the directors' report for the year ended 31 March 2014. The directors of the Bank are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001 (Cth)*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Bank Limited for the year ended 31 March 2014, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'DH Armstrong'.

DH Armstrong

Partner

Sydney
2 May 2014

Investor information

Securityholder Calendar

2014

Date	Event
15 July	MIS distribution
24 July	2014 Annual General Meeting
30 September	Half-year financial end
15 October	MIS distribution, MIPS distribution

2015

Date	Event
15 January	MIS distribution
31 March	Full-year financial year end
15 April	MIS distribution, MIPS distribution

2014 Annual General Meeting (AGM)

Macquarie Bank's 2014 AGM will be held on Thursday, 24 July 2014 in the Macquarie Auditorium, Level 3, No.1 Martin Place, Sydney, NSW after the Macquarie Group Limited AGM but not earlier than 2.00 pm. Details of the business of the meeting will be forwarded to securityholders separately.

Stock Exchange Listing

Macquarie Income Securities are quoted on the Australian Securities Exchange and trade under the code MBLHB.

Macquarie Exchangeable Capital Securities are listed on the Singapore Stock Exchange and trade under the stock code 2AQB.

Macquarie Bank also has debt securities quoted on the London Stock Exchange, Luxembourg Stock Exchange and SIX Swiss Exchange (Switzerland).

Distribution details – Macquarie Finance Limited

Macquarie Finance Limited makes interest payments quarterly in arrears in respect of the Macquarie Income Securities on or about 15 January, April, July and October each year. Dates and payment rates are listed at macquarie.com.au/investorrelations.

Voting rights

At meetings of members or classes of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative.

On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

- one vote for each fully paid ordinary share held
- that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

Macquarie Income Securities

Holders of Macquarie Income Securities, as holders of a stapled security that includes a preference share, have the right to vote at any general meeting of Macquarie Bank only in one or more of the following circumstances:

- during a period when two consecutive Semi-annual Dividends (as defined in the preference share terms) due and payable on the preference shares have not been paid in full, and no optional Dividend (as defined in the preference share terms) has been paid
- on any proposal to reduce Macquarie Bank's share capital
- on any resolution to approve the terms of a buy-back agreement
- on any proposal that affects the rights attaching to the preference shares
- on a proposal to wind up Macquarie Bank
- on any proposal for the disposal of the whole of Macquarie Bank's property, business and undertaking
- during the winding up of Macquarie Bank.

In these circumstances, holders have the same rights as to attendance and voting (in respect of each preference share) as those conferred on holders of ordinary shares.

Macquarie Income Preferred Securities

Unpaid preference shares were issued by Macquarie Bank as part of the Macquarie Income Preferred Securities issue. Whilst these preference shares remain unpaid, they have no voting rights. If paid up, these preference shares will have the same voting rights as holders of Macquarie Income Securities, except that instead of having a right to vote in situation i) above, they have a right to vote at any general meeting of Macquarie Bank during a period in which a dividend has been declared on the preference shares but the dividend has not been paid in full by the relevant dividend payment date.

Macquarie Exchangeable Capital Securities

Macquarie Exchangeable Capital Securities (ECS) are notes issued by Macquarie Bank acting through its London Branch. The ECS are exchangeable for ordinary shares of MGL under certain circumstances. Provisions for meetings of holders of the ECS are contained in the ECS Trust Deed. The ECS do not confer a right to attend or vote at any general meeting of Macquarie Bank.

Macquarie Income Securities

	Macquarie Income Securities	Percentage of Macquarie Income Securities
Twenty largest Macquarie Income Securities holders at 22 April 2014:		
JP Morgan Nominees Australia Limited	276,311	6.91
National Nominees Limited	256,738	6.42
HSBC Custody Nominees (Australia) Limited	131,827	3.30
Navigator Australia Ltd - MLC Investment Sett A/C	115,115	2.88
Nulis Nominees (Australia) Limited - Navigator Mast Plan Sett A/C	89,132	2.23
Questor Financial Services Limited - TPS RF A/C	67,853	1.70
RBC Investor Service Australia Nominees Pty Limited - GSENIP A/C	33,007	0.83
BNP Paribas Noms Pty Ltd - DRP	26,440	0.66
Citicorp Nominees Pty Ltd	21,492	0.54
Australian Executor Trustees Limited - No 1 Account	17,560	0.44
Argo Investments Limited	15,000	0.38
Catholic Church Endowment Society Incorporated	15,000	0.38
UBS Nominees Pty Ltd - TP00014 10 A/C	13,490	0.34
Questor Financial Services Limited - TPS PIP A/C	11,361	0.28
JGW Investments Pty Ltd	10,320	0.26
Mrs Yvonne Marjan Black	10,000	0.25
Minbashian & Co Pty Ltd - Minbashian & Co P/L S/F A/C	10,000	0.25
Temple Society Australia 152 Tucker Road	10,000	0.25
Mr Victor Allan Whitby + Ms Lorraine Joyce Whitby - VA & LJ Whitby Superfund AC>	10,000	0.25
UBS Wealth Management Australia Nominees Pty Ltd	9,669	0.24
Total	1,150,315	28.76

Spread of Macquarie Income Securities

Details of the spread of Macquarie Income Securities holders at 22 April 2014 are as follows:

Range	Holders	Securities
1 - 1,000	6,295	1,822,330
1,001 - 5,000	474	886,870
5,001 - 10,000	25	190,154
10,001 - 100,000	11	320,655
100,001 securities and over	4	779,991
Total	6,809	4,000,000

5 securityholders (representing 13 Macquarie Income Securities) held less than a marketable parcel.

Macquarie Income Preferred Securities

As at 22 April 2014, £42.5 million convertible debentures and 350,000 unpaid preference shares were on issue by Macquarie Bank as part of the Macquarie Income Preferred Securities. The £42.5 million convertible debentures and 42,500 of the unpaid preference shares were held by Macquarie Capital Funding LP and 307,500 of the unpaid preference shares were held by Macquarie BH Pty Limited. The registers in respect of the preference shares and the convertible debentures are kept at Macquarie Bank's principle administrative office at No.1 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

Investor information

continued

Website

To view the Annual Reports, presentations, distribution information and other investor information, visit macquarie.com.au/investorrelations

Enquiries

Investors who wish to enquire about any administrative matter relating to their Macquarie Income Securities securityholding are invited to contact the Share Registry office at:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 8060 Australia

Telephone (within Australia): 1300 554 096
Telephone (international): +61 3 9415 4137
Facsimile: +61 3 9473 2500

Website: www.investorcentre.com/contact

All other enquiries relating to a Macquarie Income Security holding can be directed to:

Investor Relations

Macquarie Group
Level 7, No.1 Martin Place
Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333
Facsimile: +61 2 8232 7780

Email: macquarie.shareholders@macquarie.com
Website: macquarie.com.au/investorrelations

Macquarie Bank's Company Secretary, Dennis Leong, may be contacted on the above numbers.

Glossary

AASB	Australian Accounting Standards Board
the Act	<i>Corporations Act 2001 (Cth)</i>
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
BAC	Board Audit Committee
the Bank	Macquarie Bank Limited
Banking Group	the Banking Group comprises BFS, CAF, FICC, MFG and the trading activities of the MSG. There is also one division within the Banking Group: REB
BBSW	Australian Financial Markets Association's bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR, etc
BFS	Banking and Financial Services Group
the Board	the Board of Voting Directors of Macquarie Bank Limited
BRC	Macquarie's Board Remuneration Committee
CAF	Corporate and Asset Finance Group
CAGR	compound annual growth rate
CEO	Managing Director and Chief Executive Officer
CFO	Chief Financial Officer
the Company	Macquarie Bank Limited
the Consolidated Entity	Macquarie Bank Limited and its subsidiaries
CRO	Chief Risk Officer
CVA	credit valuation adjustments
Deed	Deed of Indemnity, Access and Insurance dated 4 August 1998
Deed Poll	Indemnity and Insurance Deed Poll dated 30 July 1999
Directors	the Voting Directors of Macquarie Bank Limited (unless the context indicates otherwise)
DSU	Deferred Share Unit issued under the MEREP
ECS	Macquarie Exchangeable Capital Securities
EPS	earnings per share
ESP	Macquarie Group Employee Share Plan
Executive Key Management Personnel – (Executive KMP)	Members of the Executive Committee of Macquarie Bank Limited
FICC	Fixed Income, Currencies and Commodities
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of Macquarie Bank Limited
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542

Glossary

continued

Macquarie Board, the Board	the Board of Voting Directors of Macquarie Group Limited
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie Funds	Macquarie-managed funds
Malus	the discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement
MBEDSAP	Macquarie Bank Executive Director Share Acquisition Plan
MEREP	Macquarie Group Employee Retained Equity Plan
MFG	Macquarie Funds Group
MFL	Macquarie Finance Limited
MGESOP	Macquarie Group Employee Share Option Plan
MGSA	Macquarie Group Services Australia Pty Limited
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
MSG	Macquarie Securities Group
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NEDSAP	Non-Executive Director Share Acquisition Plan
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MFG and FICC that use certain offshore regulated entities of the Non-Banking Group
NPAT	net profit after tax
OECD	Organisation for Economic Co-operation and Development
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
REB	Real Estate Banking Division
RMG	Risk Management Group
ROE	return on ordinary equity
RSU	Restricted Share Unit issued under the MEREP
S&P	Standard & Poor's
SPE	Special Purpose Entity
TSR	total shareholder returns
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Bank Limited as defined in the Bank's Constitution

Contact details

Macquarie Bank Head Office
No.1 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office
Macquarie Bank Limited
Level 3, 25 National Circuit
Forrest ACT 2603
Australia

Tel: +61 2 6225 3000

Paper stock

Monza Recycled is Certified Carbon Neutral by The Carbon Reduction Institute (CRI) in accordance with the global Greenhouse Gas Protocol and ISO 14040 framework. Monza Recycled contains 55 per cent recycled fibre (25 per cent post consumer and 30 per cent pre consumer) and is FSC Mix Certified, which ensures that all virgin pulp is derived from well-managed forests and controlled sources. It is manufactured by an ISO 14001 certified mill.



macquarie.com.au