2013 Annual Report

Macquarie Bank

THE HOLEY DOLLAR

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

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

This year celebrates the Bicentenary of the Holey Dollar.

MACQUARIE BANK LIMITED

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.

2013 ANNUAL GENERAL MEETING

Macquarie Bank's 2013 Annual General Meeting will be held on Thursday 25 July 2013 in the Conference Room of Macquarie's Melbourne Office, Level 23, 101 Collins Street, Melbourne, VIC 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 security holders separately.

Macquarie Bank Limited
2013 Annual Report

Directors' Report
for the financial year ended 31 March 2013

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

Directors

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

Independent Directors

H.K. McCann AM, Chairman
M.J. Coleman[1]
D.J. Grady AM
M.J. Hawker AM
P.M. Kirby
C.B. Livingstone AO
J.R. Niland AC
H.M. Nugent AO
P.H. Warne

Executive Directors

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

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

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

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

Meeting Attendance

Directors' meetings

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

Board meetings

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

Board Committee meetings

	Board Audit Committee meetings (7)[a]	
	Eligible to attend as a member	Attended
M.J Coleman[1]	3	3
M.J. Hawker	7	7
P.M. Kirby	7	7
C.B. Livingstone	7	6
P.H. Warne	7	7

(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.

There were two Board sub-committee meetings. Both meetings were attended by all of that sub-committee's members, being Mr McCann, Mr Ward, Mr Moore, Ms Livingstone and the Chief Financial Officer, Mr Patrick Upfold.

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

(1) Mr Coleman was appointed to the Board and Board Audit Committee on 9 November 2012.

Directors' Report
for the financial year ended 31 March 2013
continued

Principal activities

The principal activity of the Consolidated Entity during the financial year ended 31 March 2013 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 2013 and 31 March 2012, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2013 was $A650 million (2012: $A609 million).

Dividends and distributions

MBL 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 June 2012	Special Dividend	500,000,000	31 March 2012	Paid
	2 July 2012	Final Dividend	455,000,000	31 March 2012	Paid
	12 December 2012	Interim Dividend	307,000,000	31 March 2013	Paid
Macquarie Income Securities(1)	16 April 2012	Periodic	6,073,316	15 January 2012 to 14 April 2012	Paid
	16 July 2012	Periodic	5,893,808	15 April 2012 to 14 July 2012	Paid
	15 October 2012	Periodic	5,252,822	15 July 2012 to 14 October 2012	Paid
	15 January 2013	Periodic	4,920,110	15 October 2012 to 14 January 2013	Paid
	15 April 2013	Periodic	3,964,493	15 January 2013 to 31 March 2013	Provided
Macquarie Income Preferred Securities(2)	16 April 2012	Periodic	1,990,949	16 October 2011 to 15 April 2012	Paid
	15 October 2012	Periodic	2,029,232	16 April 2012 to 15 October 2012	Paid
	15 April 2013	Periodic	1,826,570	16 October 2012 to 31 March 2013	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 notes 28 and 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 notes 28 and 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 result

Consolidated net profit attributable to ordinary equity holders of $A650 million for the year ended 31 March 2013 increased 7 per cent from $A609 million in the prior year.

Macquarie's annuity style businesses – Macquarie Funds, Corporate and Asset Finance and Banking and Financial Services – continued to perform well. The combined net profit contribution of these businesses for the year ended 31 March 2013 was broadly in line with the prior year. Macquarie Funds was impacted by lower income from lending activities partially offset by increased base fees from higher assets under management. Corporate and Asset Finance's result had a lower level of income from asset sales in the year ended 31 March 2013 compared to the prior year, partially offset by increased income from an expanded operating lease portfolio. Banking and Financial Services' improved result was largely driven by cost reductions.

Macquarie's capital markets facing businesses – Macquarie Securities and Fixed Income, Currencies and Commodities – delivered a combined net profit contribution that increased 36 per cent on the prior year. Fixed Income, Currencies and Commodities experienced improved trading conditions in most markets, however trading income growth was offset by a significant increase in impairment charges compared to the prior year as weak investor sentiment and confidence in resource equity markets as well as underperformance in certain investments adversely impacted the values. Macquarie Securities benefited from the Asia cash equities business trading through the new Hong Kong branch of MBL and a decrease in operating expenses resulting from cost initiatives undertaken over the past two years.

Net operating income of $A4,644 million for the year ended 31 March 2013 decreased 1 per cent from $A4,711 million in the prior year, and total operating expenses were down 6 per cent from $A3,828 million in the prior year to $A3,615 million for the year ended 31 March 2013. Key drivers of the changes from the prior year are:

- A 28 per cent increase in net trading income to $A1,278 million for the year ended 31 March 2013 from $A999 million in the prior year primarily in Fixed Income, Currencies and Commodities with the business experiencing improved market conditions across most markets, particularly energy, agricultural, credit and financial markets. In comparison, the prior year was adversely impacted by extreme volatility and uncertainty, particularly in credit and financial markets.
- A 16 per cent increase in fee and commission income to $A1,556 million for the year ended 31 March 2013 from $A1,344 million in the prior year. Brokerage and commissions income of $A364 million for the year ended 31 March 2013 increased 18 per cent from $A308 million in the prior year, primarily due to the transfer of the Asian cash equities business into the Hong Kong branch of MBL during the year.
- A 53 per cent decrease in other operating income and charges to $A342 million for the year ended 31 March 2013 from $A728 million in the prior year. The decrease was due to:
  - the prior year benefitting from a number of items including the gain of $A104 million on the sale of a North American oil asset;
  - an increase in aggregate impairment charges on investment securities available for sale and interests in associates and joint ventures of 91 per cent to $A197 million for the year ended 31 March 2013 from $A103 million in the prior year. In particular, weak investor sentiment and confidence in resource equity markets as well as underperformance in certain investments adversely impacted equity values of some listed investments in Fixed Income, Currencies and Commodities; and
  - reduced income from investments in non-financial operations and Net Profit Interests within Fixed Income, Currencies and Commodities that were sold in the prior year.
- A 6 per cent reduction in total operating expenses achieved as a result of cost management initiatives undertaken over the past two years, including the centralisation of support functions to generate scale benefits through improved operational efficiencies and the scaling back or exiting of selected businesses.

Income tax expense for the year ended 31 March 2013 was $A355 million, up 46 per cent from $A243 million in the prior year due to a combination of higher operating profit before income tax as well as increased profitability in the US, the write-down of certain international group tax assets and increased provisioning for tax uncertainties.

Directors' Report
for the financial year ended 31 March 2013
continued

Review of financial position

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

The Consolidated Entity's capital management policy is to be conservatively capitalised and to maintain diversified funding sources in order to support business initiatives, particularly specialised funds and offshore expansion, 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 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 Consolidated Entity is well capitalised and as at 31 March 2013, Macquarie Bank Group had a Common Equity Tier 1 Capital Ratio of 9.7 per cent and a Tier 1 Capital Ratio of 10.8 per cent. 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. The Macquarie 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.

Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2013 not otherwise disclosed in this report.

Likely developments in operations and expected outcomes

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

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

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

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

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
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.

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

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

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

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

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

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

Each of these conclusions is outlined in turn.

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

1.1 Macquarie’s overall remuneration objectives remain appropriate

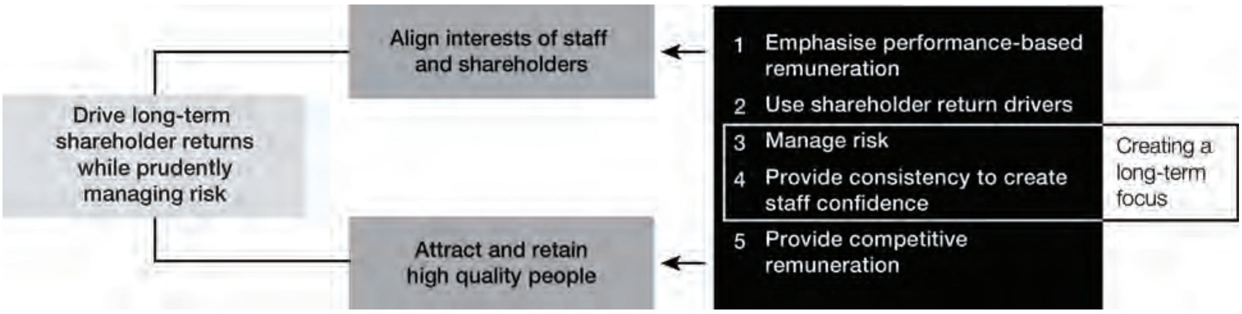
Directors consider that Macquarie’s overall remuneration objectives of driving shareholder returns over the long-term, while prudently managing risk remain appropriate. They recognise that to achieve these objectives, Macquarie must attract, motivate and retain exceptional people, while aligning their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

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

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

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

Overall remuneration objectives and principles



1.2 The remuneration framework is appropriate

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

The framework works as an integrated whole. It is comprised of fixed remuneration and a profit share scheme. In addition, 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.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

Fixed remuneration

Determine fixed remuneration

Fixed remuneration

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

Performance-based remuneration

Create Pool – Profit Share – PSUs

Profit share pool is determined annually by:

- allocation of a proportion of Macquarie's NPAT and ROE over and above the cost of capital
- exercise of discretion by Macquarie's Non-Executive Directors to adjust the size of the pool up or down taking into account:
  - shareholders' interests
  - the performance of each business and the divisions within each business
  - risk and compliance
  - the employment environment and market conditions
  - staff retention risk
- PSU pool based on the exercise of Macquarie's Non-Executive Directors' discretion taking into account the Group's overall performance and employment market factors.

Allocate – Profit Share – PSUs

Allocate to businesses

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

Allocate to risk and financial control groups and other support groups

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

Allocate to individuals

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

Structure and deliver performance-based remuneration

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

[1] See section 1.3.4 for a description.

1.3 The way the remuneration framework operates is appropriate

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

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

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

1.3.1 How the features operate together to provide shareholder alignment

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

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

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

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

(5) As approved by shareholders in December 2009.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

1.3.2 Profit share retention levels

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

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

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

- regulatory and remuneration developments continue to evolve and change
- Macquarie must have the ability to meet regulatory requirements
- Macquarie must have the flexibility to remain competitive in the global markets in which it operates.

1.3.3 Investment of retained profit share

Executive Directors' retained profit share is invested in a combination of Macquarie shares under the 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 Managing Director and CEO, Macquarie Bank Managing Director and CEO, Chief Risk Officer (CRO) and Chief Operating Officer (COO)	20%	80%
Executive Committee members with Funds responsibilities	50%	50%
Other Executive Committee members	10%	90%
Executive Directors with Funds responsibilities	50% – 75%	25% – 50%
Other Executive Directors	10%	90%

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

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

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

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

(1) The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). Where legal or tax rules make the grant of RSUs impractical, including due to different tax rules for employee equity and different securities laws, equity grants will be in the form of: 1. shares held by the staff member subject to restrictions (Restricted Shares); or 2. the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. For further details on the MEREP structure, refer to Note 32 of the 2013 Financial Statements.

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

1.3.4 Forfeiture of retained profit share for employees (Malus)

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

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

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

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

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

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

1.3.5 Early vesting and release of retained profit share

As approved by shareholders in December 2009, a departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy or in certain other limited exceptional circumstances. The Board or its delegate has discretion to accelerate the vesting of retained profit share under these circumstances (subject to the disqualifying events provisions).

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

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

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

In certain other limited exceptional circumstances, discretion may be exercised to accelerate the vesting of retained profit share and reduce the retention period on the grounds of business efficacy. If this discretion is exercised, all relevant factors will be considered on a case by case basis and will include consideration as to whether exercise of the discretion is in the best interests of Macquarie. This year such discretion has been exercised in relation to one executive due to the transfer of his employment to an operating asset controlled by a number of Macquarie-managed funds.

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

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

1.3.5.1 Disqualifying events provision

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

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

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

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

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

1.3.6 Performance share units (PSUs)

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

Determination	– The Board approves the value of PSUs to be allocated to Executive Committee members each year
Allocation	– The allocation to individuals[(2)] is based on their performance against a range of factors including: – financial performance – business leadership – people and organisational leadership, including upholding Macquarie's *Goals and Values* – risk management
Vesting	– 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) Options for Executive Committee members and other staff were discontinued in 2009. Some options remain outstanding.
(2) The allocation of PSUs to the Macquarie Group Managing Director and CEO, who is an Executive Voting Director, is subject to shareholder approval at the Macquarie Annual General Meeting.

1.3.6.1 Performance hurdles for PSUs

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

	EPS CAGR Hurdle	**ROE Hurdle**
Application to PSU awards	50 per cent	50 per cent
Performance measure	Compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years)	Relative average annual return on equity (ROE) 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.	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.
Changes	– Hurdles are periodically examined by the BRC as part of their ongoing review of the remuneration approach, to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice.	
	– For allocations from 2013, the EPS CAGR hurdle range has been amended from 9%–13% to 7.5%–12%. This change was made to reflect the change in market conditions since the hurdles were first set in 2009. – The continued use of an absolute EPS hurdle requires Macquarie to deliver increased business results before awards are exercisable, lessening the chance that awards could be exercised when results are negative as with the use of a relative measure.	– The ROE Reference Group[1] has been amended for allocations from 2013 onwards to comprise the same group of peers used for ROE performance analysis in the Macquarie Group Remuneration Report (section 3). – Use of an international peer group recognises the extent of Macquarie's internationalisation and its identified peer group. At 31 March 2013, over half of Macquarie's income and over half of Macquarie's staff were offshore.
Rationale for hurdles	– ROE and EPS are considered appropriate measures of performance as they drive longer-term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool. – ROE and EPS are appropriate to the Executive Committee because they can affect outcomes on both measures. In contrast, total shareholder return (TSR) is influenced by many external factors, including market sentiment, over which executives have limited control. – ROE and EPS can be substantiated using information that is disclosed in audited financial statements. – The use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk taking. – The approach is consistent with that advocated by APRA in not using TSR as a measure. – Being three and four year average measures from 2012 and aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee.	

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

Testing of hurdles

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

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

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

1.3.7 No special contractual termination payments

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

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

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

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

In the past year, Macquarie Bank's overall results have improved with NPAT increasing by 7 per cent.

		FY13	FY12	FY11	FY10	FY09
Net profit after tax attributed to ordinary equityholders (NPAT)	$A million	650	609	803	663	576
Return on average ordinary shareholders' funds (p.a.)	%	7.9	7.0	9.7	9.9	11.3

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

3 Strong remuneration governance has been exercised

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

3.1 Strong Board oversight exists to ensure sound overall remuneration governance

The Board has oversight of Macquarie's remuneration arrangements. The Macquarie BRC's objective is to assist the Macquarie 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:

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

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

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

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

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

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

In addition, as part of the remuneration process:

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

The Board[1] approves (on BRC recommendation)	BRC approves (on behalf of the Board)
Executive Remuneration Policy and Framework Recommendations – The Remuneration Policy, its effectiveness and its compliance with legal and regulatory requirements – The appropriate levels of delegated responsibility to management for remuneration-related decisions – The profit share methodology and any adjustments	– Identification of the Designated Executive Director population, the Code Staff population, Hong Kong Covered Staff[2], other persons whose activities may affect the financial soundness of Macquarie and senior risk and financial control staff – The profit share pool, calculated in accordance with the Board-approved methodology – The percentage of Executive Directors' retained profit share allocated to Macquarie shares and Macquarie-managed fund equity – The specific notional portfolio allocations of retained profit share amounts for individual Executive Directors – The implementation of the Remuneration Policy, including an annual review of compliance with the Executive Director minimum shareholding requirements

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

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

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

3.2 An independent remuneration review has been undertaken

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

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

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

Pay Governance's findings were that:

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

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

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

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 and is achieved by:

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

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

The Managing Directors and CEOs of Macquarie Group and Macquarie Bank are not remunerated for acting as Voting Directors.

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

All Non-Executive Directors of Macquarie Group are also Non-Executive Directors of Macquarie Bank. 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 in early 2013 to ensure that it was in line with market rates for relevant Australian financial organisations and consistent with market trends. The BRC and the Board evaluated the analyses and the conclusions reached. Following this review, it was determined that Board and Committee fees should remain unchanged.

Macquarie 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 and Macquarie Bank taken together does not exceed this shareholder approved maximum aggregate amount.

4.3 Minimum shareholding requirement for Non-Executive Directors

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

Under the minimum shareholding requirement, Non-Executive Directors are required to acquire and maintain, directly or indirectly, a holding of 4,000 Macquarie ordinary shares that they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they then maintain a holding of 6,000 Macquarie ordinary shares. Under Macquarie's *Trading Policy*, Non-Executive Directors are prohibited from hedging shares held to meet this minimum Macquarie shareholding requirement. Each Non-Executive Director's current holding of Macquarie ordinary shares is included on page 32 of the Directors' Report.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
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 Bank's Non-Executive Directors are required by the *Corporations Act 2001 (Cth)* to be included as KMP for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider themselves part of 'management'. The table reflects KMP movements during the 2013 and 2012 financial years. The key changes included:

Executive Voting Directors:

– W.R. Sheppard retired from the Board on 20 December 2011

Non-Executive Directors:

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

Executives:

– N. Sorbara appointed to the Executive Committee on 1 January 2013
– M. McLaughlin appointed to the Executive Committee on 1 January 2012
– R.S. Laidlaw retired from the Executive Committee on 31 December 2011

Name	Position	Term as KMP 2013	Term as KMP 2012
Executive Voting Director:			
N.W. Moore[1]	Macquarie Group Managing Director and CEO	Full year	Full year
W.R. Sheppard	Former MBL Managing Director and CEO	–	Partial year
G.C. Ward[1]	MBL Managing Director and CEO	Full year	Full year
Non-Executive Directors:			
M.J. Coleman	Non-Executive Director	Partial year	–
D.J. Grady AM	Non-Executive Director	Full year	Partial year
M.J. Hawker AM	Non-Executive Director	Full year	Full year
P.M. Kirby	Non-Executive Director	Full year	Full year
C.B. Livingstone AO	Non-Executive Director	Full year	Full year
H.K. McCann AM	Non-Executive Chairman	Full year	Full year
J.R. Niland AC	Non-Executive Director	Full year	Full year
H.M. Nugent AO	Non-Executive Director	Full year	Full year
P.H. Warne	Non-Executive Director	Full year	Full year
Executives:			
S.D. Allen[1]	Chief Risk Officer	Full year	Full year
A.J. Downe[1]	Group Head, Fixed Income, Currencies and Commodities Group	Full year	Full year
G.A. Farrell[1]	Group Head, Corporate and Asset Finance Group	Full year	Full year
R.S. Laidlaw	Former Group Head and Executive Chairman, Macquarie Securities Group and Macquarie Capital	–	Partial year
P.J. Maher[1]	Group Head, Banking and Financial Services Group	Full year	Full year
M. McLaughlin[1]	Country Head, United States of America	Full year	Partial year
N. Sorbara[1]	Chief Operating Officer	Partial 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 the Banks' Executive Committee as at 3 May 2013.

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 2013 and 31 March 2012, only include remuneration relating to the portion of the relevant periods that each individual was an Executive KMP. Hence, comparable executive remuneration is confined to those who were Executive KMP for the full year.

While awards under the MEREP in respect of the current year's performance will be granted in the following financial year, Macquarie begins recognising an expense (based on an initial estimate) from 1 April of the current financial year in relation to these future grants. The expense is estimated using the Macquarie share price as at 31 March 2013 (and for PSUs, also incorporates an interest rate to maturity of 3.52 per cent; expected vesting dates of 1 July 2016 and 1 July 2017; and a dividend yield of 4.99 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each MEREP award when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors and are included in the relevant remuneration disclosures below as part of Long-Term Employee Benefits (refer to the 'Earnings on prior year restricted profit share' column in the tables on pages 26 and 27. When these amounts are negative, they are deducted from Long-Term Employee Benefits remuneration in the same column.

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

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

			Short-Term Employee Benefits		
			Salary (including superannuation) $A	Performance related remuneration[1] $A	Total short-term employee benefits $A
Executive Directors					
N. W. Moore	Macquarie Group Managing Director and CEO	**2013**	**545,121**	**1,618,563**	**2,163,684**
		2012	678,974	1,696,132	2,375,106
G.C. Ward	MBL Managing Director and CEO	**2013**	**694,035**	**1,620,086**	**2,314,121**
		2012	657,841	1,414,624	2,072,465
Other Executives					
S.D. Allen	Chief Risk Officer	**2013**	**513,055**	**1,040,042**	**1,553,097**
		2012	639,034	1,217,132	1,856,166
A.J. Downe	Group Head, Fixed Income, Currencies and Commodities Group	**2013**	**599,759**	**2,256,140**	**2,855,899**
		2012	642,517	2,694,919	3,337,436
G.A. Farrell	Group Head, Corporate and Asset Finance Group	**2013**	**686,379**	**2,332,996**	**3,019,375**
		2012	715,335	2,765,938	3,481,273
P.J. Maher	Group Head, Banking and Financial Services Group	**2013**	**701,229**	**756,623**	**1,457,852**
		2012	712,552	1,494,333	2,206,885
S. Vrcelj	Group Head, Macquarie Securities Group	**2013**	**75,281**	**–**	**75,281**
		2012	683,996	–	683,996
S. Wikramanayake	Group Head, Macquarie Funds Group	**2013**	**489,505**	**1,459,153**	**1,948,658**
		2012	426,513	1,956,641	2,383,154
Total Remuneration – Comparable Executive KMP		**2013**	**4,304,364**	**11,083,603**	**15,387,967**
		2012	5,156,762	13,239,719	18,396,481
New Executives					
M. McLaughlin[7]	Country Head, United States of America	**2013**	**400,463**	**809,501**	**1,209,964**
		2012	72,920	80,967	153,887
N. Sorbara[8]	Chief Operating Officer	**2013**	**113,953**	**115,813**	**229,766**
		2012	–	–	–
Former Executive Voting Directors and Executives					
R.S. Laidlaw[9]	Former Group Head and Executive Chairman, Macquarie Securities Group and Macquarie Capital	**2013**	**–**	**–**	**–**
		2012	386,875	–	386,875
W.R. Sheppard[9]	Former MBL Managing Director and CEO	**2013**	**–**	**–**	**–**
		2012	485,542	658,265	1,143,807
Total Remuneration – Executive KMP (including new and former members)		**2013**	**4,818,780**	**12,008,917**	**16,827,697**
		2012	6,102,099	13,978,951	20,081,050

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

Long-Term Employee Benefits			Share Based Payments					
Restricted profit share[2] $A	Earnings on prior year restricted profit share[3] $A	Total long-term employee benefits $A	Equity awards including shares[4] $A	PSUs[5] $A	Options[6] $A	Total share-based payments $A	Total remuneration $A	Percentage of remuneration that consists of options and PSUs %
755,329	**535,974**	**1,291,303**	**2,609,934**	**176,976**	**–**	**2,786,910**	**6,241,897**	**2.84**
791,529	338,954	1,130,483	2,775,615	646,817	(473,038)	2,949,394	6,454,983	2.69
324,017	**184,176**	**508,193**	**1,193,459**	**150,538**	**–**	**1,343,997**	**4,166,311**	**3.61**
282,925	89,202	372,127	1,011,079	239,948	(106,821)	1,144,206	3,588,798	3.71
208,008	**140,381**	**348,389**	**729,847**	**240,672**	**(122,842)**	**847,677**	**2,749,163**	**4.29**
243,426	88,939	332,365	711,164	381,582	82,756	1,175,502	3,364,033	13.80
225,614	**1,148,901**	**1,374,515**	**2,060,639**	**(97,257)**	**–**	**1,963,382**	**6,193,796**	**(1.57)**
269,492	745,026	1,014,518	2,114,701	344,319	(353,926)	2,105,094	6,457,048	(0.15)
233,300	**420,109**	**653,409**	**1,518,024**	**920,425**	**(232,810)**	**2,205,639**	**5,878,423**	**11.70**
276,593	407,224	683,817	1,208,359	834,289	115,218	2,157,866	6,322,956	15.02
75,662	**89,248**	**164,910**	**1,085,161**	**(68,846)**	**–**	**1,016,315**	**2,639,077**	**(2.61)**
149,434	43,158	192,592	1,032,080	348,559	(115,526)	1,265,113	3,664,590	6.36
–	**–**	**–**	**–**	**–**	**–**	**–**	**75,281**	**–**
–	34,235	34,235	791,264	250,612	93,773	1,135,649	1,853,880	18.58
729,576	**254,788**	**984,364**	**443,176**	**347,140**	**–**	**790,316**	**3,723,338**	**9.32**
978,320	118,406	1,096,726	442,989	481,095	(58,963)	865,121	4,345,001	9.72
2,551,506	**2,773,577**	**5,325,083**	**9,640,240**	**1,669,648**	**(355,652)**	**10,954,236**	**31,667,286**	
2,991,719	1,865,144	4,856,863	10,087,251	3,527,221	(816,527)	12,797,945	36,051,289	
404,750	**42,836**	**447,586**	**611,167**	**55,055**	**748**	**666,970**	**2,324,520**	**2.40**
8,097	41,089	49,186	314,236	12,270	4,005	330,511	533,584	3.05
23,163	**691**	**23,854**	**55,683**	**45,044**	**–**	**100,727**	**354,347**	**12.71**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	47,280	47,280	4,127,832	1,465,384	(219,132)	5,374,084	5,808,239	21.46
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
658,265	13,098	671,363	2,005,123	849,365	(103,544)	2,750,944	4,566,114	16.33
2,979,419	**2,817,104**	**5,796,523**	**10,307,090**	**1,769,747**	**(354,904)**	**11,721,933**	**34,346,153**	
3,658,081	1,966,611	5,624,692	16,534,442	5,854,240	(1,135,198)	21,253,484	46,959,226	

Directors' Report – Remuneration Report
for the financial year ended 31 March 2013
continued

Notes to the statutory remuneration disclosures

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

Notes on individuals

Disclosed remuneration reflects their time as KMP

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

Non-Executive Director Remuneration

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

		Directors Fees $A	Other Benefits[1] $A	Total Compensation $A
M.J. Coleman[2]	**2013**	**25,639**	**–**	**25,639**
	2012	–	–	–
D.J. Grady[3]	**2013**	**65,000**	**–**	**65,000**
	2012	56,438	–	56,438
M.J. Hawker	**2013**	**65,000**	**2,826**	**67,826**
	2012	65,000	11,304	76,304
P.M. Kirby	**2013**	**65,000**	**–**	**65,000**
	2012	65,000	–	65,000
C.B. Livingstone	**2013**	**65,000**	**–**	**65,000**
	2012	65,000	–	65,000
H.K. McCann	**2013**	**240,000**	**–**	**240,000**
	2012	240,000	–	240,000
J.R. Niland	**2013**	**65,000**	**–**	**65,000**
	2012	65,000	–	65,000
H.M. Nugent	**2013**	**65,000**	**–**	**65,000**
	2012	65,000	–	65,000
P.H. Warne	**2013**	**65,000**	**–**	**65,000**
	2012	65,000	–	65,000
Total Remuneration – Non-Executive KMP	**2013**	**720,639**	**2,826**	**723,465**
	2012	686,438	11,304	697,742

(1) Other benefits for Non-Executive Directors represents a travel allowance of $A10,000 for Macquarie Group for Mr Hawker who was a resident of the UK until 30 June 2012 (2012: $A40,000).
(2) Mr Coleman was appointed to the MBL Board on 9 November 2012.
(3) Ms Grady was appointed to the MBL Board on 19 May 2011.

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

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

- financial information for Macquarie relating to the years ended 31 March 2006 through to 31 March 2013 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
- financial information for Macquarie relating to the year ended 31 March 2005 has been restated to comply with revised Australian Accounting Standards, with the exception of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005
- financial information for Macquarie relating to earlier periods has not been restated, and is therefore presented in accordance with the Australian Accounting Standards prevailing at the time.

This is the end of the Remuneration Report.

Directors' Report
for the financial year ended 31 March 2013
continued

Voting Directors' equity participation

At 3 May 2013, 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).

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). 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.

Following the approval of shareholders at the 2000 Annual General Meeting, both the Deed and the Deed Poll were amended in a minor way to clarify the operation of the deeds with respect to the provision of loans to indemnified persons for legal costs and the requirement to repay such loans. From November 2005, each Director, each Secretary and other officers having the benefit of the indemnity provisions under Macquarie Bank's Constitution, the Deed and the Deed Poll was asked to agree that those indemnities would not apply to the extent to which an indemnity for any liability or legal costs is forbidden by Australian statute or would, if given, be made void by Australian statute. These limitations on the indemnities were subsequently adopted into the indemnity provisions of Macquarie Bank's Constitution with the approval of shareholders at the 2006 Annual General Meeting with the effect that this limitation now applies directly to the terms of the Deed and the Deed Poll.

Persons who were directors and secretaries of companies in the Macquarie Bank group before the 2007 restructure which resulted in Macquarie Group Limited becoming the ultimate parent company of the group, have the benefit of the Deed Poll under which Macquarie indemnifies them against every liability incurred by them, including all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which they become involved, because of their respective capacities.

This indemnity does not apply to the extent that:

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

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.

Share options

Information on Macquarie Group's share option scheme, options granted and shares issued as a result of the exercise of options during or since the end of the financial year is contained in note 33 – Employee equity participation, in the financial report.

No unissued shares in Macquarie Bank are under option as at the date of this report.

Directors' Report
for the financial year ended 31 March 2013
continued

Directors' relevant interests

The relevant interests of Directors on 3 May 2013 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 ordinary shares	8,936		
	Macquarie Employee Retained Equity Plan (MEREP) Restricted Share Units (RSUs)	194,615		
	MEREP Performance Share Units (PSUs)	164,440		
N.W. Moore	Macquarie ordinary shares	1,049,271	Macquarie ordinary shares	387,046
	MEREP RSUs	679,198	Macquarie Global Infrastructure Fund III (B) units	362,382
	MEREP PSUs	365,566		
	2006 Macquarie ReFleXion Trusts units	5,000,000		
	2004 Macquarie Timber Land Trust units	50		
	2006 Macquarie Timber Land Trust units	75		
	Macquarie Global Infrastructure Fund III (B) units	1,637,618		
Independent Voting Directors				
M.J. Coleman			Macquarie ordinary shares	6,000
D. J. Grady			Macquarie ordinary shares	3,253
M.J. Hawker	Macquarie ordinary shares	4,500	Macquarie Convertible Preference Securities	450
			Macquarie Wrap Cash Account (MWCA) units	40,782
P.M. Kirby	Macquarie ordinary shares	23,198		
C.B. Livingstone	Macquarie ordinary shares	646	Macquarie ordinary shares	11,354
H.K. McCann			Macquarie ordinary shares	13,485
J.R. Niland	Macquarie ordinary shares	2,309	Macquarie ordinary shares	7,813
H.M. Nugent	Macquarie ordinary shares	2,906	Macquarie ordinary shares	10,100
P.H Warne	Macquarie ordinary shares	2,744	Macquarie ordinary shares	13,077

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.

Lead auditor

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

Non-audit services

Details of the amounts paid or payable to the auditor of the Consolidated Entity, PwC, and its related practices for non-audit services provided during the year is disclosed in Note 40 - Audit and other services provided by PwC.

The Consolidated Entity's *Auditor Independence Policy*, which is discussed in the Corporate Governance Statement, states that the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for the Consolidated Entity, or audits its own professional expertise. The policy also provides that significant permissible non-audit assignments awarded to external auditor must be approved in advance by the Board Audit Committee (BAC) or the BAC Chairman, as appropriate.

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

Auditor's independence declaration

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

Rounding of amounts

In accordance with Australian Securities & Investments Commission Class Order 98/100 (as amended), amounts in the 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
3 May 2013

Directors' Report Schedule 1
for the financial year ended 31 March 2013

Directors' experience and special responsibilities

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

Independent Chairman since March 2011

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 Arthur Robinson, a leading firm of Australian lawyers. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He was previously Chairman of Triako Resources Limited and Healthscope Limited.

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

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

Other directorships/appointments

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

Mr McCann is a resident of New South Wales.

Greg C Ward, BEc (Macquarie), MEc (Macquarie), FCA, F Fin (age 45)

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 .

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 directorships/appointments

- Board member, Macquarie Group Foundation
- Member, Macquarie University Council
- Director, UNICEF Australia
- Director, Financial Markets Foundation for Children

Mr Ward is a resident of New South Wales.

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

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 directorships/appointments

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

Mr Moore is a resident of New South Wales.

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

Member - Board 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 listed company directorships

(held at any time in the last three years)

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

Other directorships/appointments

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

Mr Coleman is a resident of New South Wales.

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

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 Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited, MLC and a Trustee of the Sydney Opera House. She was also President of Chief Executive Women and chaired the group's taskforce which published the CEO Kit for Attracting and Retaining Female Talent.

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

Other listed company directorships

(held at any time in the last three years)

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

Other directorships/appointments

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

Ms Grady is a resident of New South Wales.

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

Member – Board Audit Committee

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 listed company directorships

(held at any time in the last three years)

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

Other directorships/appointments

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

Mr Hawker is a resident of New South Wales.

Directors' Report Schedule 1
for the financial year ended 31 March 2013
continued

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

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

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

- Chairman, DuluxGroup Limited (since July 2010)
- Director, Orica Limited (July 2003 to July 2010)

Mr Kirby is a resident of Victoria.

Catherine B Livingstone AO, BA (Hons) (Macquarie), HonDBus (Macquarie), HonDSc (Murdoch), FCA, FTSE, FAICD (age 57)

Chairman – Board Audit Committee

Catherine Livingstone joined the Board of Macquarie Bank as an Independent Voting Director in November 2003 and has been a member of the Board of Macquarie Group since August 2007.

Experience

Ms Livingstone was the Managing Director of Cochlear Limited from 1994 to 2000. Prior to that she was the Chief Executive, Finance at Nucleus Limited and before that held a variety of finance and accounting roles including having been with chartered accountants, Price Waterhouse, for several years. Ms Livingstone was awarded the Centenary Medal in 2003 for service to Australian Society in Business Leadership and was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2002.

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

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

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

Other directorships/appointments

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

Ms Livingstone is a resident of New South Wales.

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

John Niland joined the Board of Macquarie Bank as an Independent Voting Director in February 2003 and has been a member of the Board of Macquarie Group since August 2007.

Experience

Dr Niland is a Professor Emeritus of the University of NSW (UNSW) and was Vice-Chancellor and President of UNSW from 1992 to 2002. Prior to that he was Dean of the Faculty of Commerce and Economics. Dr Niland is a former Chief Executive of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority. He has served on the Australian Universities Council, the Prime Minister's Science, Engineering and Innovation Council, the boards of the Centennial Park and Moore Park Trust, realestate.com.au Limited, St Vincent's Hospital, the Sydney Symphony Orchestra Foundation, the Sydney Olympic bid's Building Commission and the University Grants Committee of Hong Kong. He is a former President of the National Trust of Australia (NSW).

Other directorships/appointments

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

Dr Niland is a resident of New South Wales.

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

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

Dr Nugent has been actively involved in the arts and education. She was formerly the Deputy Chairman of the Australia Council, Chairman of the Major Performing Arts Board of the Australia Council, Chairman of the Ministerial Inquiry into the Major Performing Arts and Deputy Chairman of Opera Australia. In education she was previously a member of the Bradley Review into Higher Education and Professor in Management and Director of the MBA Program at the Australian Graduate School of Management.

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

- Director, Origin Energy Limited (since March 2003)

Other directorships/appointments

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

Dr Nugent is a resident of New South Wales.

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

Member – Board Audit Committee

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 Director and Deputy Chairman of the Sydney Futures Exchange (SFE) from 1995 to 1999 and a Director from 2000 to 2006. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006 he became a Director of ASX Limited.

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

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

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

Other directorships/appointments

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

Mr Warne is a resident of New South Wales.

Directors' Report Schedule 1
for the financial year ended 31 March 2013
continued

Company secretaries' qualifications and experience

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

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, professional risks insurances and employee equity plans. He has over 19 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Paula Walsh, ACIS

Assistant Company Secretary since 29 May 2008

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

Nigel Donnelly, BEc LLB (Hons) (Macquarie)

Assistant Company Secretary since 30 October 2008

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

Auditor's independence declaration

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2013, I declare that to the best of my knowledge and belief, there have been:

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

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

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
3 May 2013

Macquarie Bank Limited
2013 Financial Report
Contents

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

Income statements
for the financial year ended 31 March 2013

	Notes	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Interest and similar income		4,394	5,157	3,203	3,735
Interest expense and similar charges		(2,966)	(3,554)	(2,491)	(2,836)
Net interest income	2	1,428	1,603	712	899
Fee and commission income	2	1,556	1,344	373	85
Net trading income	2	1,278	999	854	895
Share of net profits of associates and joint ventures accounted for using the equity method	2	40	37	–	–
Other operating income and charges	2	342	728	1,173	625
Net operating income		4,644	4,711	3,112	2,504
Employment expenses	2	(1,511)	(1,507)	(875)	(850)
Brokerage, commission and trading-related expenses	2	(566)	(611)	(330)	(339)
Occupancy expenses	2	(145)	(149)	(93)	(88)
Non-salary technology expenses	2	(88)	(96)	(52)	(47)
Other operating expenses	2	(1,305)	(1,465)	(855)	(882)
Total operating expenses		(3,615)	(3,828)	(2,205)	(2,206)
Operating profit before income tax		1,029	883	907	298
Income tax expense	4	(355)	(243)	(86)	–
Profit after income tax		674	640	821	298
Profit attributable to non-controlling interests:					
Macquarie Income Preferred Securities	5	(4)	(4)	–	–
Other non-controlling interests		1	(1)	–	–
Profit attributable to non-controlling interests		(3)	(5)	–	–
Profit attributable to equity holders of Macquarie Bank Limited		671	635	821	298
Distributions paid or provided for on:					
Macquarie Income Securities	5	(21)	(26)	–	–
Convertible debentures	5	–	–	(4)	(4)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		650	609	817	294

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

Statements of comprehensive income
for the financial year ended 31 March 2013

	Notes	**Consolidated 2013 $m**	Consolidated 2012 $m	**Bank 2013 $m**	Bank 2012 $m
Profit after income tax		**674**	640	**821**	298
Other comprehensive (expense)/income:					
Available for sale investments, net of tax	29	**10**	(232)	**66**	(264)
Cash flow hedges, net of tax	29	**(10)**	(10)	**7**	7
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	29	**(2)**	1	**–**	–
Exchange differences on translation of foreign operations, net of hedge and tax		**(29)**	(15)	**(4)**	(4)
Total other comprehensive (expense)/income		**(31)**	(256)	**69**	(261)
Total comprehensive income		**643**	384	**890**	37
Total comprehensive income attributable to:					
Ordinary equity holders of Macquarie Bank Limited		**622**	353	**886**	33
Macquarie Income Securities holders		**21**	26	**–**	–
Macquarie Income Preferred Securities holders		**1**	4	**–**	–
Convertible debenture holders		**–**	–	**4**	4
Other non-controlling interests		**(1)**	1	**–**	–
Total comprehensive income		**643**	384	**890**	37

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

Statements of financial position
as at 31 March 2013

	Notes	**Consolidated 2013 $m**	Consolidated 2012 $m	**Bank 2013 $m**	Bank 2012 $m
Assets					
Receivables from financial institutions	6	**13,899**	15,340	**12,149**	13,392
Trading portfolio assets	7	**18,853**	11,545	**16,323**	9,070
Derivative assets		**14,595**	21,951	**13,513**	18,918
Investment securities available for sale	8	**14,190**	16,285	**15,641**	17,207
Other assets	9	**6,685**	7,444	**4,836**	3,960
Loan assets held at amortised cost	10	**47,926**	44,095	**24,361**	17,929
Other financial assets at fair value through profit or loss	12	**4,645**	5,962	**3,358**	4,857
Life investment contracts and other unitholder investment assets	13	**7,247**	5,908	**–**	–
Due from related body corporate entities	31	**1,060**	1,118	**994**	981
Due from subsidiaries		**–**	–	**19,791**	18,927
Property, plant and equipment	14	**5,352**	4,835	**221**	4
Interests in associates and joint ventures accounted for using the equity method	15	**528**	707	**175**	232
Intangible assets	16	**795**	874	**55**	66
Investments in subsidiaries	17	**–**	–	**4,243**	4,263
Deferred tax assets	19	**262**	105	**363**	41
Total assets		**136,037**	136,169	**116,023**	109,847
Liabilities					
Trading portfolio liabilities	20	**1,384**	3,507	**1,371**	3,468
Derivative liabilities		**14,725**	20,897	**14,588**	17,967
Deposits		**40,966**	37,014	**39,992**	36,781
Other liabilities	21	**6,966**	7,766	**4,520**	4,271
Payables to financial institutions	22	**15,180**	9,078	**14,644**	7,566
Other financial liabilities at fair value through profit or loss	23	**919**	1,688	**739**	1,265
Life investment contracts and other unitholder liabilities		**7,218**	5,897	**–**	–
Due to related body corporate entities	31	**5,456**	3,022	**5,250**	2,709
Due to subsidiaries	31	**–**	–	**7,758**	8,374
Debt issued at amortised cost	24	**31,826**	35,068	**16,306**	16,213
Provisions	25	**104**	99	**68**	56
Deferred tax liabilities	19	**435**	536	**236**	124
Total liabilities excluding loan capital		**125,179**	124,572	**105,472**	98,794
Loan capital					
Subordinated debt at amortised cost		**2,203**	2,176	**2,203**	2,176
Subordinated debt at fair value through profit or loss		**–**	150	**–**	150
Total loan capital	27	**2,203**	2,326	**2,203**	2,326
Total liabilities		**127,382**	126,898	**107,675**	101,120
Net assets		**8,655**	9,271	**8,348**	8,727
Equity					
Contributed equity	28	**8,077**	8,077	**8,152**	8,155
Reserves	29	**(645)**	(617)	**34**	(35)
Retained earnings	29	**1,131**	1,743	**162**	607
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**8,563**	9,203	**8,348**	8,727
Non-controlling interests	29	**92**	68	**–**	–
Total equity		**8,655**	9,271	**8,348**	8,727

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

Statements of changes in equity
for the financial year ended 31 March 2013

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Consolidated
Balance at 1 April 2011		7,771	(436)	1,701	9,036	72	9,108
Profit after income tax		–	–	635	635	5	640
Other comprehensive expense, net of tax		–	(256)	–	(256)	–	(256)
Total comprehensive (expense)/income		–	(256)	635	379	5	384
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	28	300	–	–	300	–	300
Dividends and distributions paid or provided for	5	–	–	(517)	(517)	–	(517)
Non-controlling interests:							
Distributions of equity, net of transaction costs		–	–	–	–	(4)	(4)
Distributions paid or provided for		–	–	–	–	(5)	(5)
Other equity movements:							
Contributions from ultimate parent entity in relation to share-based payments	28	6	–	–	6	–	6
Transfer from share-based payments reserve to retained earnings	29	–	(186)	186	–	–	–
Reserves arising from group restructure of combining entities under common control	29	–	(1)	–	(1)	–	(1)
Transfer from reserves arising from group restructure of combining entities under common control to retained earnings	29	–	262	(262)	–	–	–
		306	75	(593)	(212)	(9)	(221)
Balance at 31 March 2012		**8,077**	**(617)**	**1,743**	**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**	**(645)**	**1,131**	**8,563**	**92**	**8,655**

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Bank
Balance at 1 April 2011		7,851	351	679	8,881	–	8,881
Profit after income tax		–	–	298	298	–	298
Other comprehensive expense, net of tax		–	(261)	–	(261)	–	(261)
Total comprehensive (expense)/income		–	(261)	298	37	–	37
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	28	300	–	–	300	–	300
Dividends and distributions paid or provided for	5	–	–	(495)	(495)	–	(495)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	28	4	–	–	4	–	4
Transfer from share-based payments reserve to retained earnings	29	–	(186)	186	–	–	–
Transfer from reserves arising from group restructure of combining entities under common control to retained earnings	29	–	61	(61)	–	–	–
		304	(125)	(370)	(191)	–	(191)
Balance at 31 March 2012		**8,155**	**(35)**	**607**	**8,727**	**–**	**8,727**
Profit after 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**

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

Statements of cash flows
for the financial year ended 31 March 2013

	Notes	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Cash flows from operating activities					
Interest received		**4,208**	5,119	**3,075**	3,973
Interest and other costs of finance paid		**(2,982)**	(3,512)	**(2,526)**	(2,784)
Dividends and distributions received		**64**	65	**1,136**	356
Fees and other non-interest income received		**2,301**	1,919	**577**	233
Fees and commissions paid		**(670)**	(525)	**(429)**	(241)
Net (payments for)/proceeds from trading portfolio assets and other financial assets/liabilities		**(138)**	2,634	**1,336**	9,634
Payments to suppliers		**(1,265)**	(1,349)	**(983)**	(3,252)
Employment expenses paid		**(1,445)**	(1,609)	**(829)**	(950)
Income tax paid		**(679)**	(170)	**(547)**	(79)
Life investment contract receipts		**286**	359	**–**	–
Life investment contract premiums received and other unitholder contributions		**3,101**	3,287	**–**	–
Life investment contract payments and other unitholder maturities		**(2,718)**	(3,282)	**–**	–
Net loan assets granted		**(1,185)**	(1,720)	**(5,328)**	(4,672)
Loan facility repaid by ultimate parent entity		**–**	737	**–**	737
Recovery of loans previously written off		**15**	19	**4**	11
Net increase in amounts due to other financial institutions, deposits and other borrowings		**1,427**	1,193	**4,790**	1,134
Net cash flows from operating activities	30	**320**	3,165	**276**	4,100
Cash flows from/(used in) investing activities					
Net proceeds from/(payments for) investment securities available for sale		**1,423**	(99)	**871**	(2,202)
Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated		**484**	211	**159**	97
Payments for the acquisition of associates and subsidiaries, net of cash acquired		**(813)**	(733)	**(316)**	(630)
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**5,781**	7,386	**–**	–
Payments for life investment contracts and other unitholder investment assets		**(6,386)**	(7,681)	**–**	–
Proceeds from the disposal of property, plant and equipment, leased assets and intangible assets		**176**	429	**–**	4
Payments for the acquisition of property, plant and equipment, leased assets and intangible assets		**(504)**	(692)	**(228)**	–
Net cash flows from/(used in) investing activities		**161**	(1,179)	**486**	(2,731)

	Notes	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Cash flows (used in)/from financing activities					
Proceeds from the issue of ordinary shares		**–**	300	**–**	300
Contributions from/(distributions to) non-controlling interests		**29**	(4)	**–**	–
(Repayment of)/proceeds from subordinated debt		**(299)**	460	**(299)**	456
Dividends and distributions paid		**(1,288)**	(522)	**(1,266)**	(495)
Net cash flows (used in)/from financing activities		**(1,558)**	234	**(1,565)**	261
Net (decrease)/increase in cash and cash equivalents		**(1,077)**	2,220	**(803)**	1,630
Cash and cash equivalents at the beginning of the financial year		**12,245**	10,025	**10,303**	8,673
Cash and cash equivalents at the end of the financial year	30	**11,168**	12,245	**9,500**	10,303

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

Notes to the financial statements
for the financial year ended 31 March 2013

Note 1
Summary of significant accounting policies

(i) Basis of preparation

The principal accounting policies adopted in the preparation of this financial report and that of the previous financial year are set out below. These policies have been consistently applied to all the 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 38);
- 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), 11 and 37.1);
- acquisitions and disposals of subsidiaries and associates and joint ventures (notes 1(ii), 15 and 41);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of Special Purpose Entities (SPEs) (notes 1(ii), 10 and 24);
- determination of whether dividends and distributions received are recognised as income or a return of capital (note 1(vi));
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (notes 1(vii), 4 and 19); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvi) and 16).

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

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

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

AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* became effective in the current financial year. AASB 2010-6 adds disclosures about transfers of financial assets that do not achieve accounting derecognition, and those that do achieve derecognition but there is some form of continuing involvement. Comparative information is not required in the first year. Disclosures of transferred financial assets are presented in note 39.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AASB 13 Fair Value Measurement

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

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

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

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 1
Summary of significant accounting policies continued

(i) Basis of preparation continued

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

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

AASB 9 Financial Instruments and consequential amendments

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

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

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

AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* delays the mandatory effective date of AASB 9 to annual reporting periods beginning on or after 1 January 2015. Comparative information need not be restated however additional transition disclosures will need to be provided.

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

– financial assets carried at fair value through profit or loss (e.g. quoted bonds outside of trading book) will change to be carried at amortised cost;
– financial assets carried at amortised cost (e.g. beneficial interests) will change to be carried at fair value through profit or loss; and
– financial assets containing embedded derivatives (e.g. capital protected products) will no longer be separated, and the entire product will change to be carried at fair value through profit or loss.

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

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

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

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

(ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including SPEs) over which the Bank has the power to govern (directly or indirectly) decision-making in relation to financial and operating policies, so as to require that entity to conform to the Bank's objectives. The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the 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 govern the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

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

Impairment of subsidiaries

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

Securitisations

Securitised positions are held through a number of SPEs. These are generally categorised as Mortgage SPEs and Other SPEs, and include certain managed funds and re-packaging vehicles. As the Consolidated Entity is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the consolidated statement of financial position and consolidated income statement.

When assessing whether the Consolidated Entity controls (and therefore consolidates) an SPE, judgement is required about whether the Consolidated Entity has the risks and rewards as well as the ability to make operational decisions for the SPE. The range of factors that are considered in assessing control include whether:

- the majority of the benefits of the SPE's activities are obtained;
- the majority of the residual ownership risks related to the SPE's assets are obtained;
- the decision-making powers of the SPE vest with the Consolidated Entity; and
- the SPE's activities are being conducted on behalf of the Consolidated Entity and according to its specific business needs.

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

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method. 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.

Associates and joint ventures held by the Bank are carried in its financial statements at cost in accordance with AASB 127 *Consolidated and Separate Financial Statements*.

(iii) Business combinations

The purchase method of accounting is used to account for all business combinations (excepting business combinations involving entities or businesses under common control) which occurred before 1 April 2010. From 1 April 2010, business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the date of exchange) of assets 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.

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.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 1

Summary of significant accounting policies continued

(iii) Business combinations continued

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 2013
continued

Note 1

Summary of significant accounting policies continued

(vii) Income tax 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 38). 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 36. Movements in the cash flow hedging reserve in equity are shown in note 29.

(xii) Investments and other financial assets

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

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

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 2013
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	3 to 4 per cent
Meters	5 to 10 per cent
Rail cars	2 to 3 per cent
Other operating lease assets	2 to 50 per cent

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

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

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

(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 2013
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 previous three financial years.

In December 2009, the MGL established the MEREP. Restricted Share Units (RSUs)/Deferred Share Units (DSUs) and PSUs for Executive Committee members, have been granted in the current year in respect of 2012. 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: 3.7 per cent;
– expected vest date of 1 July 2015 and 1 July 2016; and
– dividend yield: 4.76 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 2013 (and for PSUs, also incorporates an interest rate to maturity of 3.52 per cent; expected vest dates of 1 July 2016 and 1 July 2017; and a dividend yield of 4.99 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, 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 balances with central banks and short-term amounts included in receivables from financial institutions; and
– 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 recognised amounts and 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) or at fair value through profit or loss (for subordinated debt at fair value through profit or loss).

(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 2013
continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Note 2				
Profit for the financial year				
Net interest income				
Interest and similar income received/receivable	4,394	5,157	3,203	3,735
Interest expense and similar charges paid/payable	(2,966)	(3,554)	(2,491)	(2,836)
Net interest income	1,428	1,603	712	899
Fee and commission income				
Base fees	639	594	9	10
Performance fees	25	30	–	–
Mergers and acquisitions, advisory and underwriting fees	41	43	17	19
Brokerage and commissions	364	308	129	54
Other fee and commission income	407	298	218	2
Income from life investment contracts and other unitholder investment assets (note 13)	80	71	–	–
Total fee and commission income	1,556	1,344	373	85
Net trading income[(1)]				
Equities	225	230	187	224
Commodities	687	566	182	144
Foreign exchange products	230	283	136	266
Interest rate products	136	(80)	349	261
Net trading income	1,278	999	854	895
Share of net profits of associates and joint ventures accounted for using the equity method	40	37	–	–

(1) Included in net trading income are fair value gains of $151 million (2012: $393 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.

Note 2

Profit for the financial year continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Other operating income and charges				
Net gains on sale of investment securities available for sale	**98**	180	**88**	161
Impairment charge on investment securities available for sale	**(170)**	(53)	**(167)**	(49)
Net gains/(losses) on sale of associates and joint ventures (note 31)	**51**	8	**(7)**	(9)
Impairment charge on interest in associates and joint ventures	**(27)**	(50)	**(12)**	(90)
Impairment charge on subsidiaries	**–**	–	**(109)**	(142)
Gain on change of ownership interests[1]	**–**	37	**–**	–
Gain on sale of non-financial assets	**–**	104	**–**	–
Impairment charge on non-financial assets	**(27)**	(40)	**(6)**	(3)
Net operating lease income[2]	**417**	381	**–**	–
Dividends/distributions received/receivable:				
Investment securities available for sale	**19**	21	**6**	6
Subsidiaries and associates	**–**	–	**1,127**	372
Management fees, group service charges and cost recoveries	**–**	–	**341**	417
Collective allowance for credit losses written back/(provided for) during the financial year (note 10)	**7**	(3)	**10**	12
Individually assessed provisions:				
Loan assets provided for during the financial year (note 10)	**(82)**	(83)	**(80)**	(60)
Other receivables provided for during the financial year	**(8)**	(13)	**(6)**	(11)
Recovery of loans previously provided for (note 10)	**12**	30	**50**	21
Loans written off	**(94)**	(78)	**(48)**	(40)
Recovery of loans previously written off	**15**	19	**4**	11
Other income/(charges)	**131**	268	**(18)**	29
Total other operating income and charges	**342**	728	**1,173**	625
Net operating income	**4,644**	4,711	**3,112**	2,504

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

(2) Includes rental income of $724 million (2012: $636 million) less depreciation of $307 million (2012: $255 million) in relation to operating leases where the Consolidated Entity is the lessor.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 2
Profit for the financial year continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	(1396)	(1,391)	(809)	(784)
Share-based payments	(113)	(106)	(66)	(62)
Provision/(reversal) for annual leave	(1)	(9)	1	(3)
Provision for long service leave	(1)	(1)	(1)	(1)
Total employment expenses	(1,511)	(1,507)	(875)	(850)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	(440)	(469)	(269)	(283)
Other fee and commission expenses	(126)	(142)	(61)	(56)
Total brokerage, commission and trading-related expenses	(566)	(611)	(330)	(339)
Occupancy expenses				
Operating lease rentals	(51)	(57)	(29)	(27)
Depreciation: buildings, furniture, fittings and leasehold improvements (note 14)	(12)	(18)	(2)	(3)
Other occupancy expenses	(82)	(74)	(62)	(58)
Total occupancy expenses	(145)	(149)	(93)	(88)
Non-salary technology expenses				
Information services	(59)	(55)	(40)	(32)
Depreciation: equipment (note 14)	(2)	(7)	(1)	(5)
Other non-salary technology expenses	(27)	(34)	(11)	(10)
Total non-salary technology expenses	(88)	(96)	(52)	(47)
Other operating expenses				
Professional fees	(152)	(136)	(79)	(55)
Auditor's remuneration (note 40)	(15)	(15)	(6)	(5)
Travel and entertainment expenses	(60)	(65)	(36)	(37)
Advertising and promotional expenses	(51)	(50)	(16)	(17)
Communication expenses	(16)	(20)	(7)	(8)
Amortisation of intangibles (note 16)	(52)	(69)	(10)	(7)
Other expenses[1]	(959)	(1,110)	(701)	(753)
Total other operating expenses	(1,305)	(1,465)	(855)	(882)
Total operating expenses	(3,615)	(3,828)	(2,205)	(2,206)

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

Since 31 March 2012 there have been a number of business and asset transfers between Operating Groups and the Corporate segment. These transfers were undertaken to better align the relevant assets with the expertise in each Operating Group. As part of this realignment, the Real Estate Banking Division is now reported as part of the Corporate segment. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

Macquarie Funds Group is Macquarie Group Limited's (MGL) 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 Macquarie Group.

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

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

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

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

Inter segmental transactions are determined on an arm's length basis and eliminate on consolidation.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 3

Segment reporting continued

(i) Operating segments continued

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

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Net interest and trading income	**59**	**569**	**733**
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	**28**	**430**	**(8)**
Internal management revenue/(charge)	**8**	**3**	**9**
Net operating income/(charge)	**903**	**1,036**	**1,382**
Total operating expenses	**(572)**	**(352)**	**(1,047)**
Profit/(loss) before tax	**331**	**684**	**335**
Tax expense	**–**	**–**	**–**
Loss/(profit) attributable to non-controlling interests	**1**	**–**	**–**
Profit/(loss) attributable to equity holders	**332**	**684**	**335**
Distributions paid or provided for on MIS	**–**	**–**	**–**
Net profit/(loss) attributable to ordinary equity holders	**332**	**684**	**335**
Reportable segment assets	**12,886**	**23,181**	**26,051**
Net interest and trading income	147	582	704
Fee and commission income/(expense)	718	31	687
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(2)	5	1
Other operating income and charges	73	429	(22)
Internal management revenue/(charge)	10	24	1
Net operating income/(charge)	946	1,071	1,371
Total operating expenses	(586)	(369)	(1,094)
Profit/(loss) before tax	360	702	277
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	3	(3)	–
Profit/(loss) attributable to equity holders	363	699	277
Distributions paid or provided for on MIS	–	–	–
Net profit/(loss) attributable to ordinary equity holders	363	699	277
Reportable segment assets	11,000	21,567	26,965

Macquarie Securities Group $m	Fixed Income, Currencies and Commodities $m	Corporate $m	Total $m
			Consolidated 2013
186	**1,087**	**72**	**2,706**
16	**75**	**(15)**	**1,556**
–	**26**	**4**	**40**
–	**(78)**	**(30)**	**342**
1	**17**	**(38)**	**–**
203	**1,127**	**(7)**	**4,644**
(262)	**(694)**	**(688)**	**(3,615)**
(59)	**433**	**(695)**	**1,029**
–	**–**	**(355)**	**(355)**
–	**–**	**(4)**	**(3)**
(59)	**433**	**(1,054)**	**671**
–	**–**	**(21)**	**(21)**
(59)	**433**	**(1,075)**	**650**
15,564	**42,560**	**15,795**	**136,037**
			Consolidated 2012
213	836	120	2,602
(121)	82	(53)	1,344
–	17	16	37
–	297	(49)	728
3	17	(55)	–
95	1,249	(21)	4,711
(300)	(769)	(710)	(3,828)
(205)	480	(731)	883
–	–	(243)	(243)
–	–	(5)	(5)
(205)	480	(979)	635
–	–	(26)	(26)
(205)	480	(1,005)	609
14,658	41,192	20,787	136,169

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 3
Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages, and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2013
Revenues from external customers	**2,163**	**3,078**	**1**	**3,725**	**8,967**
					Consolidated 2012
Revenues from external customers	1,850	3,120	69	3,991	9,030

(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 2013
Australia	**5,121**	**688**
Americas	**2,060**	**1,762**
Europe, Middle East and Africa	**1,456**	**4,223**
Asia Pacific	**330**	**275**
Total	**8,967**	**6,948**
		Consolidated 2012
Australia	5,193	719
Americas	2,228	1,993
Europe, Middle East and Africa	1,377	3,816
Asia Pacific	232	338
Total	9,030	6,866

(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 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 4

Income tax expense

(i) Income tax expense

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Current tax (expense)/benefit	**(259)**	129	**19**	46
Deferred tax expense	**(96)**	(372)	**(105)**	(46)
Total	**(355)**	(243)	**(86)**	–
Deferred tax expense included in income tax expense comprises:				
Increase/(decrease) in deferred tax assets	**117**	(95)	**314**	144
Increase in deferred tax liabilities	**(213)**	(277)	**(419)**	(190)
Total	**(96)**	(372)	**(105)**	(46)

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Prima facie income tax expense on operating profit[1]	**(309)**	(265)	**(272)**	(89)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	**(17)**	75	**(49)**	24
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	1	**–**	–
Share-based payments expense	**1**	(9)	**1**	(1)
Intra-group dividends	**–**	–	**329**	107
Impairment charge on controlled entities	**–**	–	**(33)**	(27)
Other items	**(31)**	(45)	**(62)**	(14)
Total income tax expense	**(355)**	(243)	**(86)**	–

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Available for sale reserve	**(21)**	91	**(38)**	97
Cash flow hedges	**8**	2	**(1)**	(2)
Foreign currency translation reserve	**13**	(7)	**–**	–
Share of other comprehensive income of associates and joint ventures	**1**	(1)	**–**	–
Total tax benefit/(expense) relating to items of other comprehensive income	**1**	85	**(39)**	95

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Investments in subsidiaries, associates, securities available for sale and joint ventures	**45**	(129)	**22**	(9)
Fixed assets	**(6)**	44	**8**	9
Financial instruments	**(75)**	(356)	**(28)**	(9)
Intangible assets	**6**	28	**–**	–
Other assets and liabilities	**(82)**	(134)	**(132)**	(77)
Tax Losses	**16**	175	**25**	40
Net Deferred tax (expense)/benefit	**(96)**	(372)	**(105)**	(46)

(1) Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2012: 30 per cent).

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

During the year, the Bank has received amended assessments from the Australian Tax Office (ATO), which cover a range of items. In accordance with ATO practice, the Bank has paid some of the primary tax and interest covered by these amended assessments and this has been recognised in these financial statements as a tax receivable.

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 2013
continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Ordinary share capital				
Interim dividend paid	**307**	194	**307**	194
2012 final dividend paid	**455**	297	**455**	297
2012 special dividend paid[1]	**500**	–	**500**	–
Total dividends paid (note 29)	**1,262**	491	**1,262**	491

(1) MBL paid a special dividend to contribute to the funding of the buyback of MGL ordinary shares.

(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 6 May 2013 from retained profits at 31 March 2013, but not recognised as a liability at the end of the financial year, is $130 million (2012: $455 million).

(iii) Distributions paid or provided for

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	**17**	21	**–**	–
Distributions provided for	**4**	5	**–**	–
Total distributions paid or provided for (note 29)	**21**	26	**–**	–

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided)	**2**	2	**–**	–
Distributions provided for	**2**	2	**–**	–
Total distributions paid or provided for	**4**	4	**–**	–

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Convertible Debentures				
Distributions paid (net of distributions previously provided)	**–**	–	**2**	2
Distributions provided for	**–**	–	**2**	2
Total distributions paid or provided for (note 29)	**–**	–	**4**	4

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 6
Receivables from financial institutions

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Cash at bank(1)	**8,108**	8,190	**6,557**	6,442
Cash collateral on securities borrowed and reverse repurchase agreements(2)	**5,723**	7,024	**5,554**	6,900
Other loans to banks	**61**	77	**31**	2
Due from clearing houses	**7**	49	**7**	48
Total receivables from financial institutions(3)	**13,899**	15,340	**12,149**	13,392

(1) Included within this balance is $20 million (2012: $27 million) provided as security over payables.

(2) The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral held as at 31 March 2013 is $6,088 million (2012: $7,424 million), which is generally sold or re-pledged.

(3) Receivables from financial institutions include $3,119 million (2012: $2,541 million) in the Consolidated Entity and $2,560 million (2012: $1,950 million) in the Bank held in segregated deposit fund and escrow account which are restricted for use.

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

In the year ended 31 March 2012, $7,024 million (2011: $7,418 million) and $6,900 million (2011: $7,370 million) of cash collateral on securities borrowed and reverse repurchase agreements were disclosed as separate line in the statements of financial position of the Consolidated Entity and of the Bank respectively.

Note 7
Trading portfolio assets

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Equities				
Listed	**6,476**	5,257	**6,474**	4,792
Unlisted	**31**	36	**27**	31
Commonwealth government securities	**5,601**	31	**5,601**	31
Commodities	**2,261**	2,010	**1,431**	1,413
Corporate securities	**1,704**	1,317	**1,116**	895
Foreign government securities	**1,742**	1,325	**761**	565
Other government securities(1)	**640**	1,094	**640**	1,094
Treasury notes	**252**	223	**252**	223
Promissory notes	**132**	235	**21**	26
Bank bills	**14**	17	**–**	–
Total trading portfolio assets(2)	**18,853**	11,545	**16,323**	9,070

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

(2) Included within this balance are trading assets of $6,784 million (2012: $2,014 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

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

Notes to the financial statements
for the financial year ended 31 March 2013
continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 8
Investment securities available for sale

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Equity securities				
Listed(1)	**246**	422	**229**	391
Unlisted	**236**	214	**72**	106
Debt securities(2),(3),(4)	**13,708**	15,649	**15,340**	16,710
Total investment securities available for sale(5)	**14,190**	16,285	**15,641**	17,207

(1) Included within this balance is $nil (2012: $2 million) provided as security over payables to other financial institutions.
(2) Included within this balance is $3,357 million (2012: $3,070 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and $20 million (2012: $120 million) of bank bills.
(3) Included within this balance is $1,002 million (2012: $757 million) provided as security over payables to other financial institutions.
(4) Included within the Bank's balance is $2,037 million (2012: $1,511 million) of mortgage based securities issued by a subsidiary.
(5) Included within this balance is $297 million (2012: $286 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, $6,120 million (2012: $6,654 million) is expected to be recovered by the Consolidated Entity and $8,041 million (2012: $6,531 million) is expected to be recovered by the Bank within 12 months of the balance date.

Note 9
Other assets

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Debtors and prepayments	**3,485**	4,625	**2,447**	3,003
Security settlements(1)	**2,256**	1,941	**2,005**	817
Income tax receivable	**534**	367	**360**	135
Property held for sale and development	**245**	360	**5**	–
Other	**165**	151	**19**	5
Total other assets(2)	**6,685**	7,444	**4,836**	3,960

(1) Security settlements are generally receivable within three working days of the relevant trade date.
(2) Included within this balance is $23 million (2012: $34 million) of assets which are provided as security over amounts payable to other financial institutions.

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 10

Loan assets held at amortised cost

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Due from other entities, net of individually assessed provision for impairment:				
Other loans and advances[(1)]	**41,246**	38,636	**23,453**	17,557
Lease receivables[(2)]	**5,192**	4,500	**214**	27
Due from other entities, net of individually assessed provision for impairment	**46,438**	43,136	**23,667**	17,584
Due from clearing houses	**1,524**	1,101	**692**	504
Due from governments[(3)]	**169**	71	**153**	2
Total loan assets before collective allowance for credit losses	**48,131**	44,308	**24,512**	18,090
Less collective allowance for credit losses	**(205)**	(213)	**(151)**	(161)
Total loan assets held at amortised cost[(4)(5)(6)]	**47,926**	44,095	**24,361**	17,929

(1) The balance is net of $273 million (2012: $349 million) in the Consolidated Entity and $242million (2012: $281million) in the Bank of individually assessed provision for impairment.

(2) The balance is net of $4 million (2012: $3 million) in the Consolidated Entity and $nil (2012: $nil) in the Bank of individually assessed provision for impairment.

(3) Governments include federal, state and local governments and related enterprises, predominantly in Australia. Included within this balance are $89 million (2012: $71 million) of finance lease receivables.

(4) Included within this balance are loans of $10,774 million (2012: $12,935 million) held by consolidated Special Purpose Entities (SPEs), which are pledged as security to note holders and debt providers.

(5) Included within this balance are other loans of $1,605 million (2012: $689 million) pledged as security over issued notes and payables to other external investors and financial institutions.

(6) Included in this balance are loans of $5,863 million (2012: $7,211 million) that are held by either a government-backed securitisation vehicle or financial institutions, and which are pledged as security to note holders. Further, loans of $455 million (2012: $329 million) are pledged under repurchase agreements.

Of the above amounts, $13,541 million (2012: $12,012 million) is expected to be recovered by the Consolidated Entity and $8,566 million (2012: $5,058 million) is expected to be recovered by the Bank within 12 months of the balance date.

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Individually assessed provisions for impairment				
Balance at the beginning of the financial year	**352**	314	**281**	253
Provided for during the financial year (note 2)	**82**	83	**80**	60
Loan assets written off, previously provided for	**(141)**	(16)	**(67)**	(13)
Recovery of loans previously provided for (note 2)	**(12)**	(30)	**(50)**	(21)
Impact of foreign currency translation	**(4)**	1	**(2)**	2
Balance at the end of the financial year	**277**	352	**242**	281
Individually assessed provisions as a percentage of total gross loan assets	**0.57%**	0.79%	**0.98%**	1.53%
Collective allowance for credit losses				
Balance at the beginning of the financial year	**213**	212	**161**	173
(Written back)/provided for during the financial year (note 2)	**(7)**	3	**(10)**	(12)
Impact of foreign currency translation	**(1)**	(2)	**–**	–
Balance at the end of the financial year	**205**	213	**151**	161

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

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 10
Loan assets held at amortised cost continued

Finance lease receivables

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

	Consolidated 2013 $m			Consolidated 2012 $m		
	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
No later than one year	**1,926**	**(208)**	**1,718**	1,718	(198)	1,520
Later than one year and no later than five years	**4,007**	**(503)**	**3,504**	3,511	(477)	3,034
Later than five years	**97**	**(34)**	**63**	24	(4)	20
Total finance lease receivables	**6,030**	**(745)**	**5,285**	5,253	(679)	4,574

Note 11
Impaired financial assets

	Consolidated 2013 $m	Consolidated 2012 $m	**Bank 2013 $m**	Bank 2012 $m
Impaired debt investment securities available for sale before individually assessed provisions for impairment	**9**	11	**3**	3
Less individually assessed provisions for impairment	**(7)**	(10)	**(2)**	(2)
Debt investment securities available for sale after individually assessed provisions for impairment	**2**	1	**1**	1
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**660**	737	**570**	585
Less individually assessed provisions for impairment	**(310)**	(380)	**(267)**	(306)
Loan assets and other financial assets after individually assessed provisions for impairment	**350**	357	**303**	279
Total net impaired financial assets	**352**	358	**304**	280

Note 12
Other financial assets at fair value through profit or loss

	Consolidated 2013 $m	Consolidated 2012 $m	**Bank 2013 $m**	Bank 2012 $m
Investment securities				
Equity securities	**2,243**	2,131	**1,017**	1,126
Debt securities	**1,177**	2,025	**1,114**	1,979
Loan assets	**1,225**	1,806	**1,227**	1,752
Total other financial assets at fair value through profit or loss(1)	**4,645**	5,962	**3,358**	4,857

(1) Included within this balance is $595 million (2012: $668 million) provided as security over payables to other financial institutions.

Of the above amounts, $2,339 million (2012: $677 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $1,061 million (2012: $609 million) by the Bank.

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 13

Life investment contracts and other unitholder investment assets

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Cash and receivables from financial institutions	**270**	77	**–**	–
Debt securities	**298**	550	**–**	–
Units in unit trusts	**6,547**	5,152	**–**	–
Equity securities	**132**	129	**–**	–
Total life investment contracts and other unitholder investment assets	**7,247**	5,908	**–**	–

Investment assets are held to satisfy policy and unitholder liabilities, which are predominantly investment linked.

The majority of the above assets are recoverable within 12 months of the balance date.

Income from life investment contracts and other unitholder investment assets

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Premium income, investment revenue and management fees	**763**	346	**–**	–
Life investment contract claims, reinsurance and changes in policy liabilities	**(624)**	(233)	**–**	–
Direct fees	**(59)**	(42)	**–**	–
Total income from life investment contracts and other unitholder investment assets (note 2)	**80**	71	**–**	–

Solvency requirements for the life investment contracts business have been met at all times during the financial year.

As at 31 March 2013, the life investment contracts business had investment assets in excess of policy holder liabilities of $32 million (2012: $14 million).

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 14
Property, plant and equipment

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Assets for own use				
Land and buildings				
Cost	180	42	140	–
Less accumulated depreciation	(6)	(6)	–	–
Total land and building	174	36	140	–
Furniture, fittings and leasehold improvements				
Cost	80	89	34	16
Less accumulated depreciation	(43)	(42)	(13)	(13)
Total furniture, fittings and leasehold improvements	37	47	21	3
Equipment				
Cost	16	25	3	4
Less accumulated depreciation	(14)	(20)	(3)	(3)
Total equipment	2	5	–	1
Infrastructure assets				
Cost	5	6	–	–
Less accumulated depreciation	–	–	–	–
Total infrastructure assets	5	6	–	–
Total assets for own use	**218**	94	**161**	4
Assets under operating lease				
Aviation				
Cost	3,533	3,660	–	–
Less accumulated depreciation	(387)	(241)	–	–
Total aviation	3,146	3,419	–	–
Meters				
Cost	798	730	–	–
Less accumulated depreciation	(138)	(75)	–	–
Total meters	660	655	–	–
Rail cars				
Cost	1,105	489	–	–
Less accumulated depreciation	(47)	(29)	–	–
Total rail cars	1,058	460	–	–
Other				
Cost	339	254	71	–
Less accumulated depreciation	(69)	(47)	(11)	–
Total other	270	207	60	–
Total assets under operating lease	**5,134**	4,741	**60**	–
Total property, plant and equipment	**5,352**	4,835	**221**	4

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 14

Property, plant and equipment continued

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

	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Assets for own use					
Balance at 1 April 2011	47	97	7	9	160
Acquisitions	1	31	6	–	38
Disposals	(4)	(64)	(1)	(1)	(70)
Impairments	(7)	–	–	(2)	(9)
Depreciation expense (note 2)	(1)	(17)	(7)	–	(25)
Balance at 31 March 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**

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 $5 million (2012: $8 million).

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 14
Property, plant and equipment continued

Assets under operating lease	Aviation $m	Meters $m	Rail cars $m	Other $m	Total $m
Balance at 1 April 2011	1,760	173	137	133	2,203
Acquisitions	2,175	516	337	120	3,148
Disposals	(346)	–	(6)	(6)	(358)
Reclassification	–	–	–	(11)	(11)
Impairments	(7)	–	–	–	(7)
Foreign exchange movements	13	5	2	1	21
Depreciation expense	(176)	(39)	(10)	(30)	(255)
Balance at 31 March 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	**(162)**	**(77)**	**(21)**	**(47)**	**(307)**
Balance at 31 March 2013	**3,146**	**660**	**1,058**	**270**	**5,134**

Included in the balance of operating leases are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $2,289 million (2012: $2,284 million).

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

Assets under operating lease

	Consolidated 2013 $m	Consolidated 2012 $m	**Bank 2013 $m**	Bank 2012 $m
Not later than one year	**578**	493	**8**	–
Later than one year and no later than five years	**1,203**	1,231	**14**	–
Later than five years	**183**	212	**2**	–
Total future minimum lease payments receivable	**1,964**	1,936	**24**	–

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 15

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Loans and investments without provisions for impairment	**436**	513	**124**	153
Loans and investments with provisions for impairment	**189**	339	**119**	195
Less provision for impairment	**(97)**	(145)	**(68)**	(116)
Loans and investments at recoverable amount	**92**	194	**51**	79
Total interests in associates and joint ventures accounted for using the equity method[1]	**528**	707	**175**	232

[1] Included within this balance is $25 million (2012: $nil) provided as security over payables to other financial institutions.

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

(i) Reconciliation of movement in the Consolidated Entity's interests in associates and joint ventures accounted for using the equity method:

	Consolidated 2013 $m	Consolidated 2012 $m
Balance at the beginning of the financial year	**707**	856
Transfer to related body corporate entities	**(31)**	–
Associates acquired/equity invested	**119**	123
Share of pre-tax profits of associates and joint ventures	**57**	53
Share of tax expense of associates and joint ventures	**(17)**	(16)
Dividends received from associates	**(42)**	(65)
Associates disposed of	**(203)**	(150)
Impairment of investments in associates	**(27)**	(50)
Foreign exchange and other adjustments	**(42)**	24
Transferred from/(to) other asset categories	**7**	(68)
Balance at the end of the financial year	**528**	707

(ii) Summarised information of interests in material associates and joint ventures accounted for using the equity method is as follows:

			Ownership interest	
Name of entity	**Country of incorporation**	**Reporting date**	**2013 %**	2012 %
MGPA Limited[1],[a]	Bermuda	30 June	**56**	56

[1] Significant influence arises due to the Consolidated Entity's voting power and board representation being less than 50 per cent.
[a] Property development/management

Notes to the financial statements
for the financial year ended 31 March 2013
continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 15
Interests in associates and joint ventures accounted for using the equity method continued

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Share incurred jointly with other investors	**24**	33	**–**	–
For which the Consolidated Entity is severally liable	**12**	17	**–**	–

(iv) Financial information of interests in associates and joint ventures are as follows:

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Consolidated Entity's share of:				
Assets	**1,268**	1,267	**278**	344
Liabilities	**971**	903	**173**	201
Revenues	**150**	165	**84**	77
Profit after tax	**42**	32	**13**	29

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 16
Intangible assets

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Goodwill	**308**	336	**–**	–
Intangible assets with indefinite lives	**222**	224	**–**	–
Customer and servicing contracts	**94**	111	**–**	–
Other identifiable intangible assets	**171**	203	**55**	66
Total intangible assets	**795**	874	**55**	66

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 2011	332	236	139	159	866
Acquisitions	16	–	2	111	129
Reclassifications	1	–	–	(1)	–
Adjustments to purchase consideration(1)	(3)	–	–	(4)	(7)
Disposals	(2)	–	–	(1)	(3)
Impairment	(6)	(12)	(2)	(1)	(21)
Amortisation expense (note 2)	–	–	(22)	(47)	(69)
Currency translation difference	(2)	–	(6)	(13)	(21)
Balance at 31 March 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**

(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.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 17
Investments in subsidiaries

Investments at cost without provisions for impairment	–	–	3,562	3,545
Investments at cost with provisions for impairment	–	–	1,226	1,251
Less provisions for impairment	–	–	(545)	(533)
Investments at recoverable amount	–	–	681	718
Total investments in subsidiaries	–	–	4,243	4,263

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:

- Alster & Thames Partners (USA) LLC (United States)
- Boston Australia Pty Limited
- Delaware Investments U.S., Inc. (United States)
- Delaware Management Company (United States)
- Delaware Management Company, Inc. (United States)
- Delaware Management Holdings, Inc. (United States)
- DMH Corp. (United States)
- Macquarie Aerospace Limited (Bermuda)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Affiliated Managers Holdings (USA) Inc. (United States)
- Macquarie Alternative Assets Management Limited
- Macquarie Americas Corp (United States)
- Macquarie Americas Holdings Pty Ltd
- Macquarie Australia Pty Limited
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Corporate and Asset Finance Holdings Inc. (United States)
- Macquarie Corporate and Asset Finance Limited
- Macquarie FG Holdings Inc. (United States)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Limited (Canada)
- Macquarie Financial Products Management Limited
- Macquarie Funding Holdings Inc. (United States)
- Macquarie Funding Inc. (Canada)
- Macquarie Funds Management Holdings Pty Limited
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Leasing Pty. Limited
- Macquarie Lending & Investment Partners LLP (United Kingdom)
- Macquarie Life Limited
- Macquarie Private Wealth Inc. (Canada)
- Macquarie Real Estate Inc. (United States)
- Macquarie Securitisation Limited
- 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); and
- Taurus Enhanced Gold and Precious Metals Fund (ARSN 150 309 934).

This is of no consequence to the consolidation 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.

Note 18

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 into the deed and on 22 March 2010, Boston Australia Pty Limited and MTF Holdings Pty Limited entered the deed. 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 the Bank they also represent the 'Extended Closed Group'.

Consolidated income statement of the Closed Group for the financial year ended 31 March 2013

	2013 $m	2012 $m
Interest and similar income	**2,539**	3,859
Interest expense and similar charges	**(1,861)**	(2,859)
Net interest income	**678**	1,000
Fee and commission income	**376**	85
Net trading income	**835**	917
Share of net profits of associates and joint ventures accounted for using the equity method	**17**	9
Other operating income and charges	**781**	1,336
Net operating income	**2,687**	3,347
Employment expenses	**(874)**	(850)
Brokerage, commission and trading-related expenses	**(330)**	(339)
Occupancy expenses	**(94)**	(88)
Non-salary technology expenses	**(60)**	(54)
Other operating expenses	**(811)**	(844)
Total operating expenses	**(2,169)**	(2,175)
Operating profit before income tax	**518**	1,172
Income tax expense	**(95)**	(39)
Gain attributable to equity holders of the Closed Group	**423**	1,133
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**1,224**	586
Profit attributable to equity holder of the Closed Group	**423**	1,133
Dividends paid or provided	**(1,266)**	(495)
Retained earnings at the end of the financial year	**381**	1,224

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 18
Deed of cross guarantee continued

Consolidated statement of financial position of the Closed Group as at 31 March 2013

	2013 $m	2012 $m
Assets		
Receivables from financial institutions	**12,186**	13,393
Trading portfolio assets	**16,323**	9,069
Derivative assets	**13,513**	18,917
Investment securities available for sale	**15,641**	17,207
Other assets	**4,823**	3,960
Loan assets held at amortised cost	**24,014**	17,929
Other financial assets at fair value through profit or loss	**3,358**	4,857
Due from related body corporate entities	**1,001**	984
Due from subsidiaries	**19,264**	17,239
Property, plant and equipment	**221**	4
Interests in associates and joint ventures accounted for using the equity method	**250**	338
Intangible assets	**55**	66
Investments in subsidiaries	**4,573**	5,939
Deferred tax assets	**159**	–
Total assets	**115,381**	109,902
Liabilities		
Trading portfolio liabilities	**1,371**	3,468
Derivative liabilities	**14,588**	17,967
Deposits	**37,775**	35,028
Other liabilities	**4,514**	4,271
Payables to financial institutions	**16,861**	9,319
Other financial liabilities at fair value through profit or loss	**739**	1,265
Due to related body corporate entities	**5,256**	2,714
Due to subsidiaries	**7,047**	7,765
Debt issued at amortised cost	**16,385**	16,278
Provisions	**68**	56
Deferred tax liabilities	**–**	98
Total liabilities excluding loan capital	**104,604**	98,229
Loan capital		
Subordinated debt at amortised cost	**2,203**	2,176
Subordinated debt at fair value through profit or loss	**–**	150
Total loan capital	**2,203**	2,326
Total liabilities	**106,807**	100,555
Net assets	**8,574**	9,347
Equity		
Contributed equity	**8,152**	8,155
Reserves	**41**	(32)
Retained earnings	**381**	1,224
Total equity	**8,574**	9,347

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 19

Deferred tax assets/(liabilities)

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
The balance comprises temporary differences attributable to:				
Other assets and liabilities	**265**	–	**178**	–
Tax losses	**343**	327	**67**	42
Investments in subsidiaries, associates, securities available for sale and joint ventures	**77**	(10)	**61**	28
Fixed assets	**57**	63	**54**	46
Set-off of deferred tax liabilities	**(480)**	(275)	**3**	(75)
Total deferred tax assets	**262**	105	**363**	41
Intangible assets	**(105)**	(111)	**–**	–
Other assets and liabilities	**(170)**	(127)	**(170)**	(163)
Financial instruments	**(640)**	(573)	**(63)**	(36)
Set-off of deferred tax assets	**480**	275	**(3)**	75
Total deferred tax liabilities	**(435)**	(536)	**(236)**	(124)
Net deferred tax (liabilities)/assets	**(173)**	(431)	**127**	(83)

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 $18 million (2012: $21 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 20

Trading portfolio liabilities

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Listed equity securities	**1,029**	2,541	**1,029**	2,541
Foreign government securities	**179**	202	**179**	193
Corporate securities	**176**	213	**163**	183
Commonwealth government securities	**–**	551	**–**	551
Total trading portfolio liabilities	**1,384**	3,507	**1,371**	3,468

Notes to the financial statements
for the financial year ended 31 March 2013
continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 21
Other liabilities

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Creditors	**3,511**	4,621	**1,953**	2,721
Due to brokers and customers	**2,505**	2,217	**2,079**	1,132
Accrued charges and sundry provisions	**805**	729	**446**	332
Income tax payable	**26**	46	**5**	–
Other	**119**	153	**37**	86
Total other liabilities	**6,966**	7,766	**4,520**	4,271

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

Note 22
Payables to financial institutions

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Cash collateral on securities lent and repurchase agreements	**10,252**	4,779	**11,732**	5,881
OECD banks	**2,309**	2,417	**1,084**	793
Other	**2,619**	1,882	**1,828**	892
Total payables to financial institutions	**15,180**	9,078	**14,644**	7,566

In the year ended 31 March 2012, $4,779 million (2011: $6,103 million) and $5,881 million (2011: $6,099 million) of cash collateral on securities lent and repurchase agreements were disclosed as a separate line in the statements of financial position of the Consolidated Entity and of the Bank respectively.

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Equity linked notes	**878**	1,638	**698**	1,219
Debt issued at fair value	**41**	50	**41**	46
Total other financial liabilities at fair value through profit or loss	**919**	1,688	**739**	1,265

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 24

Debt issued at amortised cost

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Debt issued at amortised cost[1]	**31,826**	35,068	**16,306**	16,213
Total debt issued at amortised cost	**31,826**	35,068	**16,306**	16,213

(1) Included within this balance are amounts payable to SPE note holders of $9,393 million (2012: $11,474 million).

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

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

(In Australian dollar equivalent):

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
United States dollars	**13,505**	13,013	**10,225**	10,341
Australian dollars	**8,944**	12,638	**2,818**	4,067
Canadian dollars	**5,868**	7,192	**7**	72
Japanese yen	**1,805**	1,551	**1,805**	1,551
Swiss franc	**1,004**	13	**1,004**	13
Euro	**594**	1,394	**371**	873
Great British pounds	**442**	476	**329**	240
Hong Kong dollars	**250**	88	**250**	88
Korean won	**134**	171	**79**	78
Singapore dollars	**76**	121	**76**	119
Others	**123**	99	**81**	36
Total by currency	**32,745**	36,756	**17,045**	17,478

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.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 25
Provisions

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Provision for annual leave	**48**	49	**28**	27
Provision for long service leave	**38**	27	**38**	27
Provision for other employee entitlements	**12**	16	**–**	–
Provision for dividends	**6**	7	**2**	2
Total provisions	**104**	99	**68**	56

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.

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.

Exchangeable Capital Securities

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

The ECS, being unsecured subordinated notes, pay non-cumulative interest of 10.25 per cent per annum, payable semi annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of the Bank as to whether payments should be made. If interest is not paid on the ECS on an interest payment date, 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 MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of 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 ordinary shares will be issued at a 5 per cent discount to the MGL share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange. There is no additional amount payable by an ECS holder on an exchange. No ECS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if ECS were exchanged at 31 March 2013 would be 6,800,228. The maximum total number of MGL ordinary shares that can be issued on an exchange is 17,689,525.

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

As at 31 March 2013, the remaining principal liability related to the ECS was US$250 million (2012: US$250 million).

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 27
Loan capital continued

Maturity and currency profiles of loan capital instruments

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
The dates upon which the Consolidated Entity has committed to repay the principal sum to the lenders are as follows:				
Less than 12 months	**60**	59	**60**	59
31 May 2017	**–**	299	**–**	299
21 September 2020	**808**	767	**808**	767
7 April 2021	**1,098**	963	**1,098**	963
	1,966	2,088	**1,966**	2,088
The instrument with a conditional repayment obligation:				
ECS	**240**	241	**240**	241
Loan capital	**2,206**	2,329	**2,206**	2,329
Less directly attributable issue cost	**(3)**	(3)	**(3)**	(3)
Total loan capital(1)	**2,203**	2,326	**2,203**	2,326

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
United States dollars	**1,375**	1,230	**1,375**	1,230
Euro	**831**	791	**831**	791
Australian dollars	**–**	308	**–**	308
Loan capital	**2,206**	2,329	**2,206**	2,329
Less directly attributable issue cost	**(3)**	(3)	**(3)**	(3)
Total loan capital by currency(1)	**2,203**	2,326	**2,203**	2,326

(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.

The carrying value of subordinated debt at fair value through profit or loss at 31 March 2013 is $nil (2012: equal to contractual amount).

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

Note 28

Contributed equity

	Consolidated and Bank 2013 Number of shares	Consolidated and Bank 2012 Number of shares	Consolidated and Bank 2013 $m	Consolidated and Bank 2012 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**501,561,948**	485,069,369	**7,578**	7,278
Issue of shares to Macquarie B.H. Pty Ltd on 30 June 2011 at $18.19 per share	**–**	16,492,579	**–**	300
Closing balance of fully paid ordinary shares	**501,561,948**	501,561,948	**7,578**	7,578

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	**108**	102	**79**	75
Additional paid up capital/(return of capital)	**–**	6	**(3)**	4
Balance at the end of the financial year	**108**	108	**76**	79

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 the 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. During the year ended 31 March 2013, compensation expense relating to MEREP which has been treated as paid up capital in the Consolidated Entity totalled $3,998,212 (2012: $1,628,818) and in the Bank $889,918 (2012: $747,807). 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 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. For the year ended 31 March 2012, MGESOP related compensation expense treated as additional paid up capital totalled $3,591,240 in the Consolidated Entity and $2,287,030 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, compensation expense relating to these plans which has been recognised as additional paid up capital in the Consolidated Entity totalled $419,881 (2012: $447,104) and in the Bank $418,895 (2012: $442,223). Details of the MGESOP, MGSSAP and ESP are disclosed in note 33 – Employee equity participation.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 28
Contributed equity continued

Macquarie Income Securities

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
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 (2012: 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 (2012: 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.

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Contributed equity	**8,077**	8,077	**8,152**	8,155

Note 29

Reserves, retained earnings and non-controlling interests

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**(658)**	(643)	**(38)**	(34)
Currency translation differences arising during the financial year, net of hedge and net of tax	**(26)**	(15)	**(4)**	(4)
Balance at the end of the financial year	**(684)**	(658)	**(42)**	(38)
Available for sale reserve				
Balance at the beginning of the financial year	**75**	307	**2**	266
Revaluation movement for the financial year, net of tax	**(37)**	(91)	**14**	(126)
Transfer to income statement upon impairment, net of tax	**118**	1	**117**	1
Transfer to income statement on realisation, net of tax	**(71)**	(142)	**(65)**	(139)
Balance at the end of the financial year	**85**	75	**68**	2
Share-based payments reserve				
Balance at the beginning of the financial year	**–**	186	**–**	186
Transfer to retained earnings(1)	**–**	(186)	**–**	(186)
Balance at the end of the financial year	**–**	–	**–**	–
Cash flow hedging reserve				
Balance at the beginning of the financial year	**(36)**	(26)	**1**	(6)
Revaluation movement for the financial year, net of tax	**(10)**	(10)	**7**	7
Balance at the end of the financial year	**(46)**	(36)	**8**	1
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**	1	**–**	–
Share of other comprehensive (expense)/income during the financial year	**(2)**	1	**–**	–
Balance at the end of the financial year	**–**	2	**–**	–
Reserves arising from group restructure of combining entities under common control				
Balance at the beginning of the financial year	**–**	(261)	**–**	(61)
Arising from acquisition of subsidiaries from the Non-Banking Group (note 41)	**–**	(1)	**–**	–
Transfer to retained earnings(2)	**–**	262	**–**	61
Balance at the end of the financial year	**–**	–	**–**	–
Total reserves at the end of the financial year	**(645)**	(617)	**34**	(35)
Retained earnings				
Balance at the beginning of the financial year	**1,743**	1,701	**607**	679
Profit attributable to equity holders of MBL	**671**	635	**821**	298
Distributions paid or provided for on Macquarie Income Securities (note 5)	**(21)**	(26)	**–**	–
Distributions paid or provided on convertible debentures (note 5)	**–**	–	**(4)**	(4)
Dividends paid on ordinary share capital (note 5)	**(1,262)**	(491)	**(1,262)**	(491)
Transfer from share-based payments reserve(1)	**–**	186	**–**	186
Transfer from reserves arising from group restructure of combining entities under common control(2)	**–**	(262)	**–**	(61)
Balance at the end of the financial year	**1,131**	1,743	**162**	607

(1) Includes $nil (2012: $186 million) transferred to retained earnings in respect of expired and lapsed options.

(2) Reserves arising from group restructure of combining entities under common control relate predominantly to transactions in the 31 March 2007 and 31 March 2008 financial years where these reserves and retained earnings were disclosed on a gross basis to explain the impacts of restructures of entities under the control of MGL. While the presentation was relevant to those reporting periods, there is no continuing value to the users of the accounts in carrying forward the gross disclosures and as such, these reserves were transferred to retained earnings in 31 March 2012.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

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 (2012: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent (2012: 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 first coupon was paid on 15 April 2005. The instruments are reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with the NCI share of profit after tax. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

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

	Consolidated 2013 $m	Consolidated 2012 $m	**Bank 2013 $m**	Bank 2012 $m
Macquarie Income Preferred Securities				
Proceeds on issue of Macquarie Income Preferred Securities	**107**	107	**–**	–
Less issue costs	**(1)**	(1)	**–**	–
	106	106	**–**	–
Foreign currency translation reserve	**(46)**	(43)	**–**	–
Total Macquarie Income Preferred Securities	**60**	63	**–**	–
Other non-controlling interests				
Ordinary share capital	**29**	5	**–**	–
Retained earnings	**3**	–	**–**	–
Total other non-controlling interests	**32**	5	**–**	–
Total non-controlling interests	**92**	68	**–**	–

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 30

Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Receivables from financial institutions[(1),(2)]	**8,195**	8,288	**6,563**	6,491
Trading portfolio assets and debt securities[(3)]	**2,973**	3,957	**2,937**	3,812
Cash and cash equivalents at the end of the financial year	**11,168**	12,245	**9,500**	10,303

(1) Includes cash at bank, overnight cash at bank, other loans to financial institutions and amounts due from clearing houses as per note 1(xx) – Summary of significant accounting policies.

(2) Cash and cash equivalents include $3,119 million (2012: $2,541 million) in the Consolidated Entity and $2,560 million (2012: $1,950 million) in the Bank held in segregated deposit fund and escrow account which are restricted for use.

(3) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities as per note 1(xx) – Summary of significant accounting policies.

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Profit after income tax	**674**	640	**821**	298
Adjustments to profit after income tax:				
Depreciation and amortisation	**373**	349	**13**	15
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(273)**	(248)	**(378)**	(381)
Gain on sale of non-financial assets	**–**	(104)	**–**	–
Provision and impairment charge on financial and non-financial assets	**388**	290	**367**	362
Interest on available for sale financial assets	**(126)**	(100)	**(103)**	186
Net gains on sale of investment securities available for sale and associates and joint ventures	**(150)**	(225)	**(81)**	(152)
Share-based payment (reversal)/expense	**(5)**	6	**–**	4
Share of net profits of associates and joint ventures accounted for using the equity method	**(40)**	(37)	**–**	–
Changes in assets and liabilities:				
Change in dividends receivable	**3**	(21)	**3**	(22)
Change in values of associates due to dividends received	**42**	65	**–**	96
Change in fees and non-interest income receivable	**(25)**	(241)	**(108)**	(298)
Change in fees and commissions payable	**(104)**	87	**(99)**	98
Change in tax balances	**282**	73	**(461)**	(79)
Change in provisions for employee entitlements	**7**	3	**–**	2
Change in loan assets	**(1,185)**	(1,720)	**(5,328)**	(4,672)
Change in loan receivable from ultimate parent entity	**–**	737	**–**	737
Change in debtors, prepayments, accrued charges and creditors	**274**	110	**41**	(2,357)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(1,148)**	1,915	**750**	9,025
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**745**	1,296	**4,839**	1,238
Change in life investment contract receivables	**588**	290	**–**	–
Net cash flows from operating activities	**320**	3,165	**276**	4,100

Notes to the financial statements
for the financial year ended 31 March 2013
continued

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.

In the financial year ended 31 March 2008 the Bank provided a $10.1 billion intra-group loan to MGL. This facility was fully repaid on 27 April 2011.

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 2013, current tax of the Consolidated Entity and the Bank attributed to MGL as the head entity of the tax consolidated group amounted to $146 million liabilities (2012: $58 million liabilities) and $29 million liabilities (2012: $80 million assets) 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 2013 $m	Consolidated 2012 $m	**Bank 2013 $m**	Bank 2012 $m
Amounts receivable[(1)]	**142**	137	**107**	92

(1) As described in note 1(xix) – Summary of significant accounting policies, the amounts receivable by the Bank includes $92 million (2012: $68 million) for amounts paid in advance for MEREP 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 2013 are $2,565 million (2012: $1,607 million) positive value and $438 million (2012: $954 million) negative value.

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 31

Related party information continued

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Interest income received/receivable	–	–	340	457
Interest expense paid/payable	–	–	(266)	(244)
Fee and commission income	–	–	288	186
Other operating income	–	–	27	47
Dividends and distributions received/receivable	–	–	1,097	357
Management fees, group service charges and cost recoveries	–	–	341	419
Brokerage, commission and trading-related expenses	–	–	–	1

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Amounts receivable	–	–	21,828	20,438
Amounts payable	–	–	(7,758)	(8,374)

Other related body corporate entities

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

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

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Interest income received/receivable	22	42	68	39
Interest expense paid/payable	(116)	(154)	(96)	(134)
Management fees, group service charges and cost recoveries	–	(1)	–	(1)
Fee and commission expense	(159)	(284)	(203)	(322)
Other operating expenses	(624)	(937)	(450)	(711)
Other income	1	–	1	–

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

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Amounts receivable	918	981	887	889
Amounts payable	(5,456)	(3,022)	(5,250)	(2,709)

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 31
Related party information continued

Associates and joint ventures

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

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

Interest income received/receivable	**–**	2	**–**	–
Fee and commission income/(expense)[1]	**3**	41	**(32)**	(23)
Other income	**1**	4	**–**	1
Gains/(losses) on sale of securities[2] (note 2)	**51**	8	**(7)**	(9)
Brokerage and commission expense	**(3)**	–	**–**	–
Dividends and distributions[3]	**42**	65	**30**	15

(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 15 – Interests in associates and joint ventures accounted for using the equity method):

Amounts receivable	**304**	177	**302**	98
Amounts payable	**(110)**	(2)	**(110)**	(2)

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

Note 32

Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of the Bank during the financial years ended 31 March 2013 and 31 March 2012, unless indicated:

Executive Directors

N.W. Moore[1]	
G.C. Ward[1]	Managing Director and Chief Executive Officer (appointed 20 December 2011)

Former Executive Directors

W.R. Sheppard	Managing Director and Chief Executive Officer (retired 20 December 2011)

Non-Executive Directors

M.J. Coleman	(appointed 9 November 2012)
D.J. Grady AM	(appointed 19 May 2011)
M.J. Hawker AM	
P.M. Kirby	
C.B. Livingstone AO	
H.K. McCann AM	Non-Executive Chairman
J.R. Niland AC	
H.M. Nugent AO	
P.H. Warne	

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the past two financial years ended 31 March 2013 and 31 March 2012, unless otherwise indicated.

Executives

S.D. Allen[1]	Chief Risk Officer
A.J. Downe[1]	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell[1]	Group Head, Corporate and Asset Finance Group (appointed 2 July 2010)
P.J. Maher[1]	Group Head, Banking and Financial Services Group
M. McLaughlin[1]	Country Head, Unites States of America (appointed 1 January 2012)
N. Sorbara[1]	Chief Operating Officer (appointed 1 January 2013)
S. Vrcelj[1]	Group Head, Macquarie Securities Group (appointed 7 April 2011)
S. Wikramanayake[1]	Group Head, Macquarie Funds Group

Former Executives

R.S. Laidlaw	Former Executive Chairman, Macquarie Securities Group (11 July 2011 to 31 December 2011) Former Group Head, Macquarie Securities Group (to 7 April 2011) Former Group Head, Macquarie Capital (to 31 December 2011)

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

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 25 to 29.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 32

Key Management Personnel disclosure continued

Key Management Personnel remuneration

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

	Short-term Employee Benefits				Long-term Employee Benefits	Share-based Payments		
	Salary and fees (including superannuation) $	Performance related remuneration(1) $	Other benefits $	Total short-term Employee Benefits $	Restricted profit share(2) $	Equity awards including shares(3) $	PSUs/ Options(4) $	Total remuneration $
Executive Remuneration								
2013	**4,818,780**	**12,008,917**	**–**	**16,827,697**	**5,796,523**	**10,307,090**	**1,414,843**	**34,346,153**
2012	6,102,099	13,978,951	–	20,081,050	5,624,692	16,534,442	4,719,042	46,959,226
Non-Executive Remuneration								
2013	**720,639**	**–**	**2,826**	**723,465**	**–**	**–**	**–**	**723,465**
2012	686,438	–	11,304	697,742	–	–	–	697,742

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.
(2) The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS plan) including earnings on notional investments from retained profit share in prior years. For 2012 this amount also includes an adjustment for a reallocation of prior year's profit share from restricted profit share to share based payments.
(3) The current year amortisation for retained profit share calculated as described in note 1(xxi) – Summary of significant accounting policies.
(4) The current year amortisation for PSUs and options calculated as described in note 1 (xxi) – Summary of significant accounting policies. Adjustments were made during the current and prior years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April $'000	Interest charged $'000	Write-downs $'000	Closing balance at 31 March $'000
Total for Key Management Personnel and their related parties	**2013**	**5,739**	**377**	**–**	**5,718**
	2012	5,539	374	–	5,888
Total for Key Management Personnel(1)	**2013**	**5,739**	**377**	**–**	**5,718**
	2012	5,539	374	–	5,888

(1) Number of persons included in the aggregate at 31 March 2013: 3 (2012: 3).

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

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 2013

Name and position	Balance at 1 April 2012(1) $'000	Interest charged(2) $'000	Write-downs $'000	Balance at 31 March 2013(3) $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	**5,274**	**348**	**–**	**5,274**	**5,274**
Executives					
P.J. Maher	**376**	**28**	**–**	**362**	**376**

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

For the financial year ended 31 March 2012

Name and position	Balance at 1 April 2011(1) $'000	Interest charged(2) $'000	Write-downs $'000	Balance at 31 March 2012(3) $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	5,274	356	–	5,274	5,274
Executives					
P.J. Maher	27	5	–	376	376
Former					
R.S. Laidlaw(4)	238	13	–	238	238

(1) Or date of appointment if later.
(2) All loans provided by the Consolidated Entity to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.
(3) Or date of resignation if earlier.
(4) Mr Laidlaw retired from the Executive Committee on 31 December 2011. The balance at 31 March 2012 represents the balance at date of retirement from the Executive Committee.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

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 2013 $m	Consolidated 2012 $m
Total annual contributions in respect of Infrastructure Bonds and similar products	**554**	1,187
Total value of iUnits options	**520**	36

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

Executive Directors

N.W. Moore, G.C. Ward

Executives

S.D. Allen, A.J. Downe, G.A. Farrell, P.J. Maher, S. Vrcelj, S. Wikramanayake

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.

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 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 generally of MGL shares do not receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as are provided to holders of RSUs. However, holders of DSUs will have no voting rights as to any underlying MGL shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs below).

Performance Share Units (PSUs)

PSUs are structured as DSUs or RSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. Where PSUs are structured as DSUs, holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs. For 2012, the PSUs granted to the MBL Executive Committee, including the CEO, are structured as DSUs with performance hurdles. The rights under any future PSUs structured as RSUs will generally be the same as the rights under RSUs, except for the PSU performance hurdles which will not apply to RSUs.

Restricted Shares

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

Notes to the financial statements
for the financial year ended 31 March 2013
continued

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 2013	Number of RSU Awards 2012
RSUs on issue at the beginning of the financial year	**7,806,417**	4,922,519
Granted during the financial year	**3,783,350**	3,395,331
Forfeited during the financial year	**(421,239)**	(422,421)
Vested RSUs withdrawn from the MEREP during the financial year	**(1,351,936)**	(847,142)
Transfers from related body corporate entities	**276,011**	758,130
RSUs on issue at the end of the financial year	**10,092,603**	7,806,417
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**7,878**	98,410

The weighted average fair value of the RSU Awards granted during the financial year was $26.81 (2012: $31.11).

	Number of DSU Awards 2013	Number of DSU Awards 2012
DSUs on issue at the beginning of the financial year	**592,524**	365,580
Granted during the financial year	**843,589**	274,760
Forfeited during the financial year	**(39,867)**	(41,318)
Exercised during the financial year	**(207,220)**	(36,312)
Transfers from related body corporate entities	**63,713**	29,814
DSUs on issue at the end of the financial year	**1,252,739**	592,524
DSUs exercisable at the end of the financial year	**96,783**	28,882

The weighted average fair value of the DSU Awards granted during the financial year was $26.77 (2012: $31.31).

	Number of PSU Awards 2013	Number of PSU Awards 2012
PSUs on issue at the beginning of the financial year	**314,350**	78,623
Granted during the financial year	**333,907**	190,114
Exercised during the financial year	**–**	(1,577)
Expired during the financial year	**(40,168)**	(4,056)
Transfers (to)/from related parties	**(107,259)**	51,246
PSUs on issue at the end of the financial year	**500,830**	314,350
PSUs exercisable at the end of the financial year	**–**	–

The weighted average fair value of the PSU Awards granted during the financial year was $21.91 (2012: $20.89).

	Number of Restricted Share Awards 2013	Number of Restricted Share Awards 2012
Restricted shares on issue at the beginning of the financial year	**–**	–
Granted during the financial year	**12,471**	–
Released during the financial year	**–**	–
Forfeited during the financial year	**–**	–
Restricted shares on issue at the end of the financial year	**12,471**	–
Restricted shares vested but no released at the end of the financial year	**–**	–

The weighted average fair value of the restricted shares granted during the financial year was $26.70 (2012: No grants).

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. For the year ended 31 March 2013, compensation expense relating to the MEREP totalled $114 million (2012: $102 million).

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

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

Vesting periods are as follows:

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

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

In limited cases, the Application Form for awards may set out a different vesting period, in which case that period will be the vesting period for the Award.

For Retained Profit Share Awards representing 2012 retention, the allocation price was the weighted average price of the Shares acquired for the 2012 Purchase Period, which was 7 May 2012 to 7 June 2012 (excluding the pricing period for the Macquarie Group Dividend Reinvestment Plan from 17 May 2012 to 23 May 2012 inclusive). That price was calculated to be $26.97 (2011 retention: $33.06).

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 33

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

Performance Share Units

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded. These hurdles are set out below. The BRC periodically reviews the performance hurdles, including the reference group, and has the discretion to change the performance hurdles in line with regulatory and remuneration trends. Any change will be disclosed in the Consolidated Entity's Annual Report.

The hurdles were changed during the year-ending 31 March 2013 for grants made from 1 April 2013 onwards. The new hurdles are outlined below.

Performance hurdle 1

	Reference group	
Hurdle	**Granted after 31 March 2013**	**Granted on or before 31 March 2013**
50 per cent of the PSUs based solely on the relative average annual return on equity (ROE) over the vesting period (three to four years) compared to a reference group of global peers. A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent vesting at the 75th percentile.	The current reference group comprises Barclays, Bank of America, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan, Lazard, Morgan Stanley and UBS.	The reference group comprises ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

Performance hurdle 2

	Required result	
Hurdle	**Granted after 31 March 2013**	**Granted on or before 31 March 2013**
50 per cent of the PSUs, based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years).	A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent and 100 per cent at EPS CAGR of 12.0 per cent. For example, if EPS CAGR were 9.75 per cent, 75 per cent of the Award would become exercisable.	A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 9.0 per cent and 100 per cent at EPS CAGR of 13.0 per cent. For example, if EPS CAGR were 11.0 per cent, 75 per cent of the Award would become exercisable.

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

Other arrangements

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

Compensation expense relating to these awards for the year ending 31 March 2013 was $0.24 million (2012: $0.23 million).

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. Currently MGL does not 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 2013 there were 547 (2012: 688) MBL participants in the MGESOP.

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

	Number of options 2013	**Weighted average exercise price 2013 $**	Number of options 2012	Weighted average exercise price 2012 $
Outstanding at the beginning of the financial year	**5,660,449**	**60.32**	9,567,745	60.79
Forfeited during the financial year	**(513,493)**	**49.07**	(251,141)	52.41
Exercised during the financial year	**(13,954)**	**21.94**	(12,055)	28.08
Transfers from/(to) related body corporate entities	**223,447**	**51.76**	(264,145)	65.89
Lapsed during the financial year	**(2,584,193)**	**70.21**	(3,379,955)	61.93
Outstanding at the end of the financial year	**2,772,256**	**52.68**	5,660,449	60.32
Exercisable at the end of the financial year	**2,733,574**	**52.92**	4,478,655	62.44

For options exercised during the financial year the weighted average share price at the date of exercise was $30.83 (2012: $32.19).

The range of exercise prices for options outstanding at the end of the financial year was $17.10 to $63.09 (2012: $17.10 to $94.48).

The weighted average remaining contractual life for the share options outstanding as at 31 March 2013 is 0.41 years (2012: 0.98 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	**Number of options 2013**	**Remaining life (years) 2013**	Number of options 2012	Remaining life (years) 2012
10 – 20	**12,668**	**0.94**	17,624	1.94
20 – 30	**57,336**	**0.93**	55,622	1.87
30 – 40	**70,567**	**1.09**	95,911	1.76
40 – 50	**31,000**	**0.71**	56,666	1.38
50 – 60	**2,597,685**	**0.37**	3,279,857	1.33
60 – 70	**3,000**	**0.1**	82,902	0.76
70 – 80	**–**	**–**	1,908,382	0.38
80 – 90	**–**	**–**	94,550	0.26
90 – 100	**–**	**–**	68,935	0.23
	2,772,256	**0.41**	5,660,449	0.98

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

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 33

Employee equity participation continued

Option Plan continued

There were no options issued in the financial year.

The number of outstanding options, including those not able to be exercised due to performance hurdles not being met as at 3 May 2013 is $2,703,090.

The market value of shares issued during the year as a result of the exercise of these options was $430,167 (2012: $388,060).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2013 was $102 million (2012: $165 million). No unissued shares, other than those referred to above, are under option under the MGESOP as at the date of this report.

The options were measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution.

Options granted vest 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 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 2013, compensation expense relating to exchangeable shares, retention securities and option plans totalled a credit of $4 million (2012: expense of $4 million).

Note 33

Employee equity participation continued

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

The latest offer under the ESP was made during November 2012. A total of 426 (2012: 456) staff participated in this offer. On 3 December 2012, the participants were each allocated 30 (2012: 41) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $32.85 (2012: $23.81), a total of 12,780 (2012: 18,696) shares were issued. The shares were issued for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

Historical Share Plans

Share are no longer being issued under the following plans however employees still hold shares issued in previous years.

Staff Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL introduced the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) whereby each financial year, Australian based Eligible Employees were given the opportunity to nominate an amount of their pre-tax available profit share or future commission to purchase fully paid ordinary Company shares on-market. This was subsequently replaced by the Macquarie Group Staff Share Acquisition Plan (MGSSAP) on the same terms. In early 2010, MGL suspended new offers under the MGSSAP following Australian taxation changes implemented in late 2009 which would have significantly limited the future participation in the plan. MGL does not expect it will make any future allocations under the MGSSAP.

The total number of shares purchased under the MGSSAP was limited in any financial year to 3 per cent of MGL's shares as at the beginning of that financial year.

Shares acquired under the MGSSAP cannot be sold, transferred or disposed of for a period of six months from the date that the shares are transferred into a participating employee's name except in special circumstances if the employee resigns. The shares held in the MGSSAP are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

Shares held in the MGSSAP will be withdrawn on the earlier of:

- an employee's resignation from the Company or a related entity;
- upon request by the employee (after the expiration of the non-disposal period); and
- 10 years from the date that the shares are registered in an employee's name.

In all other respects, the shares rank equally with all other fully paid ordinary shares then on issue.

Eligible Employees were Australian based permanent full-time or part-time employees or fixed term contract employees of the Company or a related company who either received available profit share in the relevant year of at least $1,000 in total or allocated at least $1,000 in available commission towards the MGSSAP.

The Macquarie Bank Executive Director Share Acquisition Plan (MBEDSAP) was a sub-plan of the MBSSAP which was created in 2003 and was open to eligible Executive Directors. The disposal and forfeiture restrictions in the MBEDSAP differ from those in the MBSSAP. This was subsequently replaced by the Macquarie Group Executive Director Share Acquisition Plan (MGEDSAP) on the same terms but no offers have been made under the plan.

In April 2008, a further sub-plan of the MGSSAP was created, the Macquarie Group Executive Committee Acquisition Plan, whereby members of MGL's Executive Committee were required to contribute certain proportions of their annual profit share to acquire Company shares, which must be held for at least three years. Further information on this is provided in the Remuneration Report. The first offers under this sub-plan were made in May 2008.

No offers under the MGSSAP (including the Macquarie Group Executive Committee Acquisition Plan) were made during the year 31 March 2013 (2012: Nil).

Non-Executive Director Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL also introduced the Macquarie Bank Non-Executive Director Share Acquisition Plan whereby each financial year certain Australian based Non-Executive Directors (NEDs) of the Macquarie Group of companies were given the opportunity to contribute some or all of their future pre-tax remuneration from the Macquarie Group to acquire Macquarie Bank Limited shares. This was subsequently replaced by the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) on the same terms. The Australian taxation changes referred to above in respect of the MGSSAP also apply to the NEDSAP. Accordingly, MGL has currently suspended new offers under the NEDSAP and does not expect to make any future allocations under the plan.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 33

Employee equity participation continued

Previously, NEDs could elect to participate in the NEDSAP by nominating a minimum of $1,000 of their NED remuneration per buying period to go towards the NEDSAP. Participating NEDs could also subsequently apply to reduce their previously nominated contribution provided that the relevant buying period had not commenced.

The shares were acquired at prevailing market prices. Brokerage fees were applied to the NEDs' account.

Shares acquired under the NEDSAP cannot be sold, transferred or disposed of for a period of six months from the date that the shares were transferred into a NED's name except in special circumstances if the NED resigns. The shares held in the NEDSAP are also subject to forfeiture by a NED in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

Shares held in the NEDSAP will be withdrawn on the earlier of:

– the participant ceasing to be a NED of the Company;
– upon request by the NED (after the expiration of the non-disposal period); and
– 10 years from the date that the shares are registered in a NED's name.

In all other respects, shares rank equally with all other fully paid ordinary shares then on issue.

Shares resulting from participation in the NEDSAP may count towards meeting the minimum shareholding requirements of NEDs.

No offers under the NEDSAP were made during the year ended 31 March 2013 (2012: Nil).

Other plans

The Consolidated Group operates other local share-based compensation plans, none of which, individually or in aggregate are material to the consolidated financial statements.

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m

Note 34

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Contingent liabilities exist in respect of:				
Guarantees	**545**	309	**750**	1,002
Letters of credit	**272**	178	**610**	459
Performance related contingents	**228**	209	**228**	209
Indemnities	**1**	1	**58**	60
Total contingent liabilities[1]	**1,046**	697	**1,646**	1,730
Commitments exist in respect of:				
Undrawn credit facilities	**2,374**	3,431	**2,151**	2,601
Forward asset purchases	**17**	109	**12**	104
Total commitments[2]	**2,391**	3,540	**2,163**	2,705
Total contingent liabilities and commitments	**3,437**	4,237	**3,809**	4,435

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

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

Note 35

Lease commitments

	Consolidated 2013 $m	Consolidated 2012 $m	Bank 2013 $m	Bank 2012 $m
Non-cancellable operating leases expiring:				
Not later than one year	**4**	5	**–**	–
Later than one year and not later than five years	**6**	10	**–**	–
Later than five years	**1**	1	**–**	–
Total operating lease commitments	**11**	16	**–**	–

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

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 36
Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Consolidated Entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 1(xi) – Summary of significant accounting policies:

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from 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 2013, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $7 million negative value (2012: $11 million positive value).

During the year the Consolidated Entity recognised $nil (2012: $4 million gains) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2013, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $161 million negative value (2012: $119 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 2013, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $97 million negative value (2012: $139 million positive value).

During the year fair value losses on the hedging instruments of $236 million have been recognised (2012: $339 million losses), offset by $221 million (2012: $335 million gains) of gains on the hedged item.

Net investment in foreign operations hedges: The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its non–core foreign operations.

At 31 March 2013, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $35 million positive value (2012: $2 million positive value). During the year the Consolidated Entity recognised $nil (2012: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to $1,798 million (2012: $461million) is designated as a hedge of it's net investment in foreign operations. The fair value of the borrowing at 31 March 2013 was $2,039 million (2012: $464m).The foreign exchange gain of $14 million (2012: $nil) on translation of the borrowing to currency at the end of the reporting period is recognized in other comprehensive income.

The types of derivative financial instruments which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross–currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Note 37

Financial risk management

Risk Management Group

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are market risk, equity risk, credit risk, liquidity risk, operational risk, legal risk and compliance risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group (RMG), and in the case of legal risk, Legal and Governance, to ensure appropriate assessment and management of these risks.

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

Note 37.1

Credit risk

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

The responsibility for approval of credit exposures is delegated to specific individuals by the Board of MGL. While Operating Groups are assigned modest levels of Credit discretions, all credit exposures above these levels are independently assessed by RMG. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and acceptable. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year, or more frequently if necessary. Retail credit exposures are monitored on a portfolio basis.

Credit exposures for loans are evaluated as the full face value whereas exposures for derivatives are a function of potential market movements. When trading gives rise to settlement risk, this exposure is assessed as the full face value of the settlement amount. Credit exposures which fluctuate through the duration of the transaction are updated daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

To mitigate credit risk, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

All wholesale exposures are allocated an MGL rating on a 1 – 17 scale which broadly corresponds with Standard & Poor's and Moody's Investor Services credit ratings. Each MGL rating is assigned a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

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

Credit Grading	Internal Rating	External Equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and ensure provisioning is adequate.

A review of the credit portfolio that involves analyzing credit concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities, interests in associates and joint ventures or bank notes and coins.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 37.1
Credit risk continued

Maximum exposure to credit risk

The 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	–	6,077	343	3,370	3
Financial institutions	4,618	120	3,086	5,360	7
Other	–	126	767	141	1,515
Total Australia	4,618	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	4,505	194	5,333	2,720	–
Other	–	7	1,778	282	1,661
Total Europe, Middle East and Africa	4,505	220	7,111	3,065	1,661
Americas					
Governments	–	1,121	25	–	–
Financial institutions	4,232	344	1,407	943	–
Other	–	430	1,486	17	813
Total Americas	4,232	1,895	2,918	960	813
Total gross credit risk	13,899	10,085	14,595	13,708	5,443

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 2013
142	395	–	–	10,330
276	139	–	33	13,639
26,668	1,123	165	1,349	31,854
27,086	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
1,978	518	–	143	15,391
3,799	95	109	571	8,302
5,782	674	109	714	23,841
20	–	–	–	1,166
2,199	–	–	85	9,210
12,198	71	481	946	16,442
14,417	71	481	1,031	26,818
47,926	2,402	1,060	3,437	112,555

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 37.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m	Other financial assets $m
Australia					
Governments	–	924	348	2,996	334
Financial institutions	5,521	235	4,061	6,898	3
Other	–	48	1,266	30	1,594
Total Australia	5,521	1,207	5,675	9,924	1,931
Asia Pacific					
Governments	–	1,066	36	39	72
Financial institutions	561	302	212	610	–
Other	–	179	204	–	38
Total Asia Pacific	561	1,547	452	649	110
Europe, Middle East and Africa					
Governments	–	–	–	76	408
Financial institutions	3,903	143	9,320	3,721	–
Other	–	28	1,949	345	2,156
Total Europe, Middle East and Africa	3,903	171	11,269	4,142	2,564
Americas					
Governments	–	595	68	–	293
Financial institutions	5,355	372	2,443	809	–
Other	–	350	2,044	125	1,772
Total Americas	5,355	1,317	4,555	934	2,065
Total gross credit risk	15,340	4,242	21,951	15,649	6,670

Loan assets held at amortised cost $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 2012
68	885	–	–	5,555
646	323	–	24	17,711
23,122	1,543	262	1,520	29,385
23,836	2,751	262	1,544	52,651
1	–	–	–	1,214
215	38	–	1	1,939
344	–	321	42	1,128
560	38	321	43	4,281
1	42	–	–	527
746	834	–	297	18,964
3,698	87	21	548	8,832
4,445	963	21	845	28,323
1	–	–	–	957
1,849	2	–	105	10,935
13,404	77	514	1,700	19,986
15,254	79	514	1,805	31,878
44,095	3,831	1,118	4,237	117,133

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 37.1
Credit risk continued

Maximum exposure to credit risk continued

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	–	6,077	343	3,370	3
Financial institutions	4,275	120	3,145	5,160	4
Other	–	127	852	32	1,657
Total Australia	4,275	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	4,313	194	5,149	2,703	–
Other	–	7	1,780	293	1,309
Total Europe, Middle East and Africa	4,313	220	6,929	3,059	1,309
Americas					
Governments	–	343	2	–	–
Financial institutions	3,135	330	1,347	882	–
Other	–	405	526	2,037	20
Total Americas	3,135	1,078	1,875	2,919	20
Total gross credit risk	12,149	8,391	13,513	15,340	4,382

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 2013
153	395	–	–	–	10,341
265	81	–	–	33	13,083
13,740	1,215	123	13,210	1,329	32,285
14,158	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
1,959	518	–	–	124	14,960
3,118	1	114	1,981	631	9,234
5,077	580	114	1,981	755	24,337
–	–	–	–	–	345
1,473	–	–	–	85	7,252
3,286	70	466	3,554	1,247	11,611
4,759	70	466	3,554	1,332	19,208
24,361	2,341	994	19,791	3,809	105,071

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 37.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m	Other financial assets $m
Australia					
Governments	–	924	349	2,996	148
Financial institutions	5,014	235	3,856	6,716	–
Other	–	48	1,355	19	1,688
Total Australia	5,014	1,207	5,560	9,731	1,836
Asia Pacific					
Governments	–	683	–	39	1
Financial institutions	488	18	212	610	–
Other	–	58	195	–	–
Total Asia Pacific	488	759	407	649	1
Europe, Middle East and Africa					
Governments	–	–	–	76	9
Financial institutions	3,747	143	8,470	3,702	–
Other	–	4	1,912	279	1,934
Total Europe, Middle East and Africa	3,747	147	10,382	4,057	1,943
Americas					
Governments	–	140	6	–	60
Financial institutions	4,143	231	1,928	739	–
Other	–	350	635	1,534	89
Total Americas	4,143	721	2,569	2,273	149
Total gross credit risk	13,392	2,834	18,918	16,710	3,929

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 2012
2	885	–	–	–	5,304
597	282	–	–	24	16,724
9,107	1,614	181	12,101	1,454	27,567
9,706	2,781	181	12,101	1,478	49,595
–	–	–	–	–	723
63	–	–	–	–	1,391
181	–	303	1,474	85	2,296
244	–	303	1,474	85	4,410
–	42	–	–	–	127
718	834	–	–	219	17,833
3,103	1	13	1,875	585	9,706
3,821	877	13	1,875	804	27,666
–	–	–	–	–	206
1,070	–	–	–	104	8,215
3,088	73	484	3,477	1,964	11,694
4,158	73	484	3,477	2,068	20,115
17,929	3,731	981	18,927	4,435	101,786

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 37.1
Credit risk continued

Collateral and credit enhancements held

Receivables from financial institutions

Cash collateral on securities borrowed and reverse repurchase agreements balance is included in receivables from financial institutions.

Securities borrowed and reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

Loan assets held at amortised cost

Residential mortgage loans

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 protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. In Australia and Canada, LMI is taken out for all mortgages to cover 100 per cent of the original principal plus interest. In the USA, LMI is taken out only for loans with Loan to Value Ratio (LVR) higher than 80 per cent at origination. Substantially all the Americas portfolio consists of Canadian mortgages. Further included in the mortgage loan balance is $10,774 million (2012: $12,935 million) which have been securitised by consolidated SPEs. Further, $5,863 million (2012: $7,211 million) are held by either a government-backed securitisation vehicle or financial institutions, not consolidated by the Consolidated Entity.

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 LVRs determined using current loan balances and the valuation at the time the mortgage was financed.

	2013		2012	
Consolidated	**Australia $m**	**Americas $m**	Australia $m	Americas $m
Fully collateralised				
Loan to value ratio				
Less than 25%	**452**	**22**	451	27
25% to 50%	**1,769**	**253**	1,711	329
51% to 75%	**4,069**	**1,234**	3,838	1,479
76% to 90%	**4,159**	**3,404**	3,638	4,433
91% to 100%	**1,098**	**2,420**	903	2,666
Partly collateralised	**33**	**1**	45	1
Total mortgages	**11,580**	**7,334**	10,586	8,935
Bank				
Fully collateralised				
Loan to value ratio				
Less than 25%	**175**	**–**	102	–
25% to 50%	**794**	**–**	419	–
51% to 75%	**1,952**	**–**	926	–
76% to 90%	**2,480**	**–**	1,070	–
91% to 100%	**809**	**–**	282	–
Partly collateralised	**22**	**–**	15	–
Total mortgages	**6,232**	**–**	2,814	–

In the year ended 31 March 2013, Macquarie acquired residential mortgages in EMEA originated by other financial institutions that are secured by fixed charges over a borrower's property. Of the mortgage balance of $472 million in the Consolidated Entity, $266 million has a LVR of 50 per cent or less, $116 million has an LVR of between 50 and 75 per cent and $90 million an LVR of between 75 and 100 per cent. Of the mortgage balance of $299 million in the Bank, $266 million has a LVR of 50 per cent or less and $33 million has an LVR of between 50 and 75 per cent.

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Relationship Banking provides residential and commercial mortgages to clients in Australia, usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property. Of the mortgage balance of $840 million (2012: $1,151 million), $103 million (2012: $161 million) has a LVR of 50 per cent or less, $532 million (2012: $828 million) has an LVR of between 50 and 75 per cent and $193 million, (2012: $140 million) an LVR of between 75 and 100 per cent. $12 million (2012: $22 million) is partly secured with and LVR greater than 100 per cent.

Investment and insurance premium lending

Macquarie lends to clients for investment and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the investments as collateral and obtains additional cash margin to maintain limits. Other investment lending is backed by cash deposits from the client. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. For the Consolidated Entity, of the investment and insurance premium lending portfolio of $1,541 million (2012: $1,812 million), $1,473 million (2012: $1,698 million) is fully collateralised. For the Bank, of the investment and insurance premium lending portfolio of $1,428 million (2012: $1,329 million), $1,360 million (2012: $1,234 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 $9,364 million (2012: $6,787 million), the credit exposure after considering the depreciated value of collateral is $2,584 million (2012: $2,036 million). For the Bank, of the lease and retail finance portfolio of $973 million (2012: $315 million), the credit exposure after considering the depreciated value of collateral is $242 million (2012: $95 million).

Corporate and commercial term lending

The Consolidated Entity and the Bank exclude 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 is uncertain and therefore are assigned no value for disclosure purposes.

Additional collateral

The Consolidated Entity and the Bank exclude 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 is 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 $1,281 million (2012: $1,801 million) and in the Bank of $1,215 million (2012: $1,776 million). This amount is fully secured by the underlying securities investments or cash deposits of the investors.

Derivative financial instruments

Exchange traded derivatives contracts have limited credit risk as counterparties have to be members of the exchange and demonstrate they have adequate resources to fulfill obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or stock, and provide daily variation margins usually in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation/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 2013 of $4,709 million (2012: $8,906 million). The Consolidated Entity has also placed initial and variation cash margins with exchanges, the balance at 31 March 2013 being $3,287 million (2012: $1,594 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 2013 of $4,160 million (2012: $7,408 million). The Consolidated Entity has also placed initial and variation cash margins with exchanges, the balance at 31 March 2013 being $2,446 million (2012: $1,090 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 2013
continued

Note 37.1
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. Master netting arrangements are generally insufficient to allow offset in the Statement of Financial Position. However, the credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement (e.g. derivatives and cash margins) to be terminated and settled on a net basis. 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 2013, the Consolidated Entity held OTC contracts with a positive replacement value of $9,753 million (2012: $12,887 million). The Consolidated Entity also held margins of $1,555 million (2012: $1,201 million) covering OTC contracts. The credit risk of these contacts is further reduced due to master netting agreements covering negative OTC contracts of $5,279 million (2012: $6,957 million), and collateral placed of $2,036 million (2012: $1,950 million).

As at 31 March 2013, the Bank held OTC contracts with a positive replacement value of $8,894 million (2012: $11,189 million). The Bank also held margins of $1,519 million (2012: $1,146 million) covering OTC contracts. The credit risk of these contacts is further reduced due to master netting agreements covering negative OTC contracts of $4,922 million (2012: $6,494 million), and collateral placed of $2,010 million (2012: $1,920 million).

Other assets

In the Consolidated Entity, security settlements of $2,256 million (2012: $1,941 million), and in the Bank of $2,005 million (2012: $817 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 as collateral until settled, which is usually less than three days after trade.

Debt investments securities available for sale

Included in this balance are holdings of $683 million (2012: $1,403 million) issued by Australian banks which are subject to an Australian Government Guarantee. A further $243 million (2012: $438 million) is secured by specified assets under covered bonds.

Credit commitments and contingent liabilities

In the Consolidated Entity, of the Undrawn facilities and lending commitments of $2,374 million (2012: $3,431 million), $1,147 million (2012: $1,999 million) are fully secured by underlying specific assets. In the Bank, of $2,151 million (2012: $2,601 million), $1,103 million (2012: $1,414 million) are fully secured.

Note 37.1

Credit risk continued

Credit Quality – Consolidated 2013

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	12,582	1,309	8	–	–	13,899
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						47,926
Governments	164	5	–	–	–	169
Financial institutions	2,576	2,057	27	–	–	4,660
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

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 2013
continued

Note 37.1
Credit risk continued

Credit Quality – Consolidated 2012

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	13,757	1,583	–	–	–	15,340
Trading portfolio assets						4,242
Governments	2,478	107	–	–	–	2,585
Financial institutions	923	122	7	–	–	1,052
Other	183	388	34	–	–	605
Derivative assets						21,951
Governments	438	14	–	–	–	452
Financial institutions	15,338	698	–	–	–	16,036
Other	2,588	2,875	–	–	–	5,463
Debt investment securities available for sale						15,649
Governments	3,111	–	–	–	–	3,111
Financial institutions	11,972	66	–	–	–	12,038
Other	44	455	–	–	1	500
Other assets						6,670
Governments	1,107	–	–	–	–	1,107
Financial institutions	–	–	–	–	3	3
Other	3,828	1,167	20	472	73	5,560
Loan assets held at amortised cost						44,095
Governments	63	8	–	–	–	71
Financial institutions	2,565	891	–	–	–	3,456
Other	21,270	17,477	227	–	1,594	40,568
Other financial assets at fair value through profit or loss						3,831
Governments	927	–	–	–	–	927
Financial institutions	1,193	4	–	–	–	1,197
Other	266	1,416	–	–	25	1,707
Due from related body corporate entities						1,118
Other	137	–	–	981	–	1,118
Total	82,188	27,271	288	1,453	1,696	112,896

Included in the past due category are balances in which an amount was overdue by one day or more.

Note 37.1

Credit risk continued

The table below shows the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the Bank's credit rating system.

Credit Quality – Bank 2013

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	10,874	1,267	8	–	–	12,149
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						24,361
Governments	150	3	–	–	–	153
Financial institutions	1,865	1,921	27	–	–	3,813
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

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 2013
continued

Note 37.1
Credit risk continued

Credit Quality – Bank 2012

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	12,033	1,359	–	–	–	13,392
Trading portfolio assets						2,834
Governments	1,722	25	–	–	–	1,747
Financial institutions	612	8	7	–	–	627
Other	75	351	34	–	–	460
Derivative assets						18,918
Governments	355	–	–	–	–	355
Financial institutions	13,622	844	–	–	–	14,466
Other	1,722	2,375	–	–	–	4,097
Debt investment securities available for sale						16,710
Governments	3,111	–	–	–	–	3,111
Financial institutions	11,716	51	–	–	–	11,767
Other	28	1,803	–	–	1	1,832
Other assets						3,929
Governments	218	–	–	–	–	218
Other	3,136	400	23	130	22	3,711
Loan assets held at amortised cost						17,929
Governments	2	–	–	–	–	2
Financial institutions	1,643	799	6	–	–	2,448
Other	5,427	9,350	200	–	502	15,479
Other financial assets at fair value through profit or loss						3,731
Governments	927	–	–	–	–	927
Financial institutions	1,112	4	–	–	–	1,116
Other	284	1,379	–	–	25	1,688
Due from related body corporate entities						981
Other	92	–	–	889	–	981
Due from subsidiaries						18,927
Other	–	–	–	18,927	–	18,927
Total	57,837	18,748	270	19,946	550	97,351

Included in the past due category are balances in which an amount was overdue by one day or more.

Note 37.1

Credit risk continued

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

Class of financial asset	Past due but not impaired Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m
Debt investment securities available for sale					**Consolidated 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**

Class of financial asset	Past due but not impaired Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m
Debt investment securities available for sale					Consolidated 2012	
Other	–	–	–	–	1	1
Other assets						
Financial institutions	2	1	–	–	–	3
Other	41	4	3	–	25	73
Loan assets held at amortised cost						
Other	773	189	73	243	316	1,594
Other financial assets at fair value through profit or loss						
Other	3	3	3	–	16	25
Total	819	197	79	243	358	1,696

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, $1,229 million (2012: $1,126 million) relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

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

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 37.1
Credit risk continued

	Past due but not impaired					
Class of financial asset	**Less than 30 days $m**	**31 to 60 days $m**	**61 to 90 days $m**	**More than 90 days $m**	**Impaired $m**	**Total $m**
Debt investment securities available for sale						**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**

	Past due but not impaired					
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m
Debt investment securities available for sale						Bank 2012
Other	–	–	–	–	1	1
Other assets						
Other	–	–	–	–	22	22
Loan assets held at amortised cost						
Other	135	47	13	66	241	502
Other financial assets at fair value through profit or loss						
Other	3	3	3	–	16	25
Total	138	50	16	66	280	550

Repossessed collateral

In the event of customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. As at 31 March 2013, the Consolidated Entity had taken possession of fixed assets and property assets with a carrying value of $210 million (2012: $297 million).

Note 37.2

Liquidity risk continued

Liquidity management

The Consolidated Entity's liquidity risk management framework ensures that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, MBL Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer and Business Group Heads.
RMG provides independent prudential oversight of liquidity risk management, including the validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

Liquidity policy

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

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

Scenario analysis

Scenario analysis is central to the Consolidated Entity's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure the Consolidated Entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

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

Liquid asset holdings

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

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

Liquidity contingency plan

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

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

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

Funding transfer pricing

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

Contractual undiscounted cash flows

The following tables 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.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 37.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Consolidated 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 liabilities[1]	**–**	**5,521**	**–**	**–**	**–**	**5,521**
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**
Life investment contracts and other unitholder liabilities	**–**	**7,218**	**–**	**–**	**–**	**7,218**
Due to related body corporate entities	**3,912**	**1,102**	**23**	**458**	**139**	**5,634**
Debt issued at amortised cost[2]	**–**	**6,270**	**7,190**	**14,911**	**10,354**	**38,725**
Subordinated debt	**–**	**70**	**117**	**755**	**1,996**	**2,938**
Total undiscounted cash flows	**37,546**	**47,546**	**13,935**	**19,225**	**13,206**	**131,458**
Contingent liabilities	**–**	**1,046**	**–**	**–**	**–**	**1,046**
Commitments	**–**	**1,939**	**216**	**236**	**–**	**2,391**
Total undiscounted contingent liabilities and commitments[3]	**–**	**2,985**	**216**	**236**	**–**	**3,437**
						Consolidated 2012
Trading portfolio liabilities	–	3,507	–	–	–	3,507
Derivative financial instruments (trading)	–	20,514	–	–	–	20,514
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	2,898	1,992	2,660	825	8,375
Contractual amounts receivable	–	(2,856)	(1,844)	(2,671)	(847)	(8,218)
Deposits	27,939	5,729	3,130	344	23	37,165
Other liabilities[1]	–	5,839	–	–	–	5,839
Payables to financial institutions	1,471	4,714	420	2,363	609	9,577
Other financial liabilities at fair value through profit or loss	8	457	455	694	91	1,705
Life investment contracts and other unitholder liabilities	–	5,897	–	–	–	5,897
Due to related body corporate entities	2,567	399	–	58	–	3,024
Debt issued at amortised cost[2]	–	7,439	4,298	19,701	12,325	43,763
Subordinated debt	–	309	94	779	2,198	3,380
Total undiscounted cash flows	31,985	54,846	8,545	23,928	15,224	134,528
Contingent liabilities	–	697	–	–	–	697
Commitments	–	2,848	692	–	–	3,540
Total undiscounted contingent liabilities and commitments[3]	–	3,545	692	–	–	4,237

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

(2) Included in this balance is $15,033 million (2012: $19,459 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.

Note 37.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						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 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 subsidiaries	**5,835**	**101**	**1,339**	**662**	**20**	**7,957**
Due to related body corporate entities	**3,900**	**1,142**	**7**	**131**	**139**	**5,319**
Debt issued at amortised cost	**–**	**4,758**	**4,444**	**6,695**	**1,452**	**17,349**
Subordinated debt	**–**	**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**
						Bank 2012
Trading portfolio liabilities	–	3,468	–	–	–	3,468
Derivative financial instruments (trading)	–	17,766	–	–	–	17,766
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	1,311	453	1,452	785	4,001
Contractual amounts receivable	–	(1,333)	(490)	(1,552)	(810)	(4,185)
Deposits	27,745	5,728	3,130	316	13	36,932
Other liabilities(1)	–	3,674	–	–	–	3,674
Payables to financial institutions	1,435	5,165	145	691	556	7,992
Other financial liabilities at fair value through profit or loss	6	389	337	503	39	1,274
Due to related body corporate entities	7,199	174	561	552	20	8,506
Due to subsidiaries	2,236	417	–	58	–	2,711
Debt issued at amortised cost	–	6,099	1,420	8,971	102	16,592
Subordinated debt	–	309	94	779	2,198	3,380
Total undiscounted cash flows	38,621	43,167	5,650	11,770	2,903	102,111
Contingent liabilities	–	1,730	–	–	–	1,730
Commitments	–	2,516	189	–	–	2,705
Total undiscounted contingent liabilities and commitments(2)	–	4,246	189	–	–	4,435

(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 2013
continued

Note 37.3
Market risk

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

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

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

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions; and
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

Value-at-Risk (VaR) figures (1 day, 99 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.

	2013 Average $m	2013 Maximum $m	2013 Minimum $m	2012 Average $m	2012 Maximum $m	2012 Minimum $m
						Consolidated
Equities	**4.11**	**6.13**	**2.67**	6.91	9.54	4.03
Interest rates	**7.98**	**10.66**	**6.38**	10.72	14.75	6.72
Foreign exchange and bullion	**2.60**	**7.06**	**0.62**	2.99	8.78	0.79
Commodities	**10.04**	**17.11**	**6.35**	9.53	15.11	6.41
Aggregate	**13.21**	**19.98**	**9.95**	14.89	20.24	11.17

Note 37.3

Market risk continued

	2013 Average $m	2013 Maximum $m	2013 Minimum $m	2012 Average $m	2012 Maximum $m	2012 Minimum $m
						Bank
Equities	**3.88**	**6.03**	**2.31**	6.65	9.58	3.98
Interest rates	**7.63**	**10.82**	**5.98**	9.98	12.72	6.31
Foreign exchange and bullion	**3.76**	**10.05**	**0.55**	6.38	11.67	1.52
Commodities	**4.98**	**7.88**	**1.16**	4.01	5.89	2.72
Aggregate	**10.97**	**16.41**	**8.14**	11.68	15.83	8.98

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.

Certain interest rate derivative transactions are undertaken to economically hedge interest rate risk associated with the MIPS. As the MIPS are classified as equity for accounting purposes and the hedge accounting requirements cannot be met, the volatility arising from recognising these derivatives at fair value is reflected in the income statement. Interest rate sensitivity on these derivatives is not reflected in the VaR numbers above. Indicatively, a 50 basis point increase or decrease in interest rates would result in a decrease or increase in operating profit before income tax of $2 million (2012: $3 million) respectively.

Foreign currency risk

The Consolidated Entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of its investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

In order to manage this risk, the Consolidated Entity has a policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian Accounting Standards and offset movements on the net assets within foreign operations and are transferred to the foreign currency translation reserve.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading divisions is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below.

The hedging policy of the 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 2013
continued

Note 37.3
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, HKD and CAD.

	2013			2012		
	Movement in exchange rates	**Sensitivity of equity after tax**		Movement in exchange rates	Sensitivity of equity after tax	
	%	**Consolidated $m**	**Bank $m**	%	Consolidated $m	Bank $m
Australian dollar	**+10**	**(325.0)**	**(332.9)**	+10	(328.4)	(336.5)
Australian dollar	**-10**	**397.2**	**406.9**	–10	401.3	411.2

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:

	2013			2012		
Geographic region	**Movement in equity price %**	**Sensitivity of profit before tax and profit share $m**	**Sensitivity of equity after tax $m**	Movement in equity price %	Sensitivity of profit before tax and profit share $m	Sensitivity of equity after tax $m
Listed						**Consolidated**
Australia	**+10**	**0.8**	**8.0**	+10	1.5	12.2
Asia Pacific	**+10**	**–**	**–**	+10	–	–
Europe, Middle East and Africa	**+10**	**2.9**	**1.2**	+10	1.4	4.8
Americas	**+10**	**–**	**7.9**	+10	2.2	12.4
Unlisted	**+10**	**0.8**	**15.8**	+10	1.3	15.0
Listed						
Australia	**-10**	**(0.7)**	**(8.0)**	–10	(1.5)	(12.2)
Asia Pacific	**-10**	**–**	**–**	–10	–	–
Europe, Middle East and Africa	**-10**	**(2.9)**	**(1.2)**	–10	(0.4)	(4.8)
Americas	**-10**	**–**	**(7.9)**	–10	(0.1)	(12.4)
Unlisted	**-10**	**(0.1)**	**(15.8)**	–10	(0.6)	(15.0)
Listed						**Bank**
Australia	**+10**	**0.8**	**7.9**	+10	1.5	12.1
Asia Pacific	**+10**	**–**	**–**	+10	–	–
Europe, Middle East and Africa	**+10**	**2.9**	**1.2**	+10	1.4	4.7
Americas	**+10**	**–**	**6.9**	+10	2.2	10.7
Unlisted	**+10**	**0.8**	**5.2**	+10	1.3	7.3
Listed						
Australia	**-10**	**(0.7)**	**(7.9)**	–10	(1.5)	(12.1)
Asia Pacific	**-10**	**–**	**–**	–10	–	–
Europe, Middle East and Africa	**-10**	**(2.9)**	**(1.2)**	–10	(0.4)	(4.7)
Americas	**-10**	**–**	**(6.9)**	–10	(0.1)	(10.7)
Unlisted	**-10**	**(0.1)**	**(5.2)**	–10	(0.6)	(7.3)

Note 38

Fair values of financial assets and liabilities

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

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

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

– trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
– investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
– fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans;
– for financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the basic interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilises observable market parameters, market practice is to quote parameters equivalent to an interbank credit rating (that is, all counterparties are assumed to have the same credit quality). Consequently, a CVA calculation is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value; and
– the Consolidated Entity's own credit risk is factored into the valuation of liabilities measured at fair value via debit valuation adjustments (DVA). This is because credit risk affects what the transaction price of the liability would have been in an arm's length exchange motivated by normal business considerations (e.g. it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the Consolidated Entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the Consolidated Entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

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

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 38

Fair values of financial assets and liabilities continued

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

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

Note 38

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 2013 and 31 March 2012:

	2013 Carrying value $m	2013 Fair value $m	2012 Carrying value $m	2012 Fair value $m
Assets				**Consolidated**
Receivables from financial institutions	13,899	13,899	15,340	15,340
Other financial assets	5,443	5,443	6,670	6,670
Loan assets held at amortised cost	47,926	48,473	44,095	44,517
Due from related body corporate entities	1,060	1,060	1,118	1,118
Total assets	68,328	68,875	67,223	67,645
Liabilities				
Deposits	40,966	40,980	37,014	37,009
Other financial liabilities	5,521	5,521	5,839	5,839
Payables to financial institutions	15,180	15,222	9,078	9,086
Due to related body corporate entities	5,456	5,456	3,022	3,022
Debt issued at amortised cost	31,826	32,380	35,068	35,030
Loan capital at amortised cost	2,203	2,288	2,176	2,183
Total liabilities	101,152	101,847	92,197	92,169
Assets				**Bank**
Receivables from financial institutions	12,149	12,149	13,392	13,392
Other financial assets	4,382	4,382	3,929	3,929
Loan assets held at amortised cost	24,361	24,661	17,929	17,912
Due from related body corporate entities	994	994	981	981
Due from subsidiaries	19,791	19,791	18,927	18,927
Total assets	61,677	61,977	55,158	55,141
Liabilities				
Deposits	39,992	40,006	36,781	36,775
Other financial liabilities	3,872	3,872	3,674	3,674
Payables to financial institutions	14,644	14,686	7,566	7,573
Due to related body corporate entities	5,250	5,250	2,709	2,709
Due to subsidiaries	7,758	7,758	8,374	8,374
Debt issued at amortised cost	16,306	16,544	16,213	16,010
Loan capital at amortised cost	2,203	2,288	2,176	2,183
Total liabilities	90,025	90,404	77,493	77,298

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 38

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 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**
Life investment contracts and other unitholder investment assets	**2,285**	**4,962**	**–**	**7,247**
Total assets	**30,483**	**28,399**	**648**	**59,530**
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**
Life investment contracts and other unitholder liabilities	**2,285**	**4,933**	**–**	**7,218**
Total liabilities	**5,204**	**18,928**	**114**	**24,246**
Assets				Consolidated 2012
Trading portfolio assets	7,541	3,552	452	11,545
Derivative assets	4,723	17,099	129	21,951
Investment securities available for sale	14,472	1,629	184	16,285
Other financial assets at fair value through profit or loss	1,941	3,861	160	5,962
Life investment contracts and other unitholder investment assets	1,410	4,498	–	5,908
Total assets	30,087	30,639	925	61,651
Liabilities				
Trading portfolio liabilities	2,434	1,073	–	3,507
Derivative liabilities	4,229	16,572	96	20,897
Other financial liabilities at fair value through profit or loss	8	1,570	110	1,688
Life investment contracts and other unitholder liabilities	1,412	4,485	–	5,897
Subordinated debt at fair value through profit or loss	–	150	–	150
Total liabilities	8,083	23,850	206	32,139

Note 38

Fair values of financial assets and liabilities continued

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
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**
Assets				Bank 2012
Trading portfolio assets	6,559	2,238	273	9,070
Derivative assets	4,517	14,071	330	18,918
Investment securities available for sale	14,365	2,749	93	17,207
Other financial assets at fair value through profit or loss	1,904	2,822	131	4,857
Total assets	27,345	21,880	827	50,052
Liabilities				
Trading portfolio liabilities	2,423	1,045	–	3,468
Derivative liabilities	4,177	13,718	72	17,967
Other financial liabilities at fair value through profit or loss	2	1,153	110	1,265
Subordinated debt at fair value through profit or loss	–	150	–	150
Total liabilities	6,602	16,066	182	22,850

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 38

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 2013 and 31 March 2012:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the financial year	**452**	**184**
Purchases	**225**	**29**
Sales	**(360)**	**(37)**
Issues	**–**	**–**
Settlements	**–**	**–**
Net transfers (out of)/into Level 3	**(80)**	**68**
Fair value gains/(losses) recognised in the income statement(1)	**16**	**(7)**
Fair value gains recognised in other comprehensive income(1)	**–**	**31**
Balance at the end of the financial year	**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**	**–**
Balance at the beginning of the financial year	489	370
Purchases	355	41
Sales	(369)	(77)
Issues	–	–
Settlements	–	(31)
Net transfers (out of)/into Level 3	(16)	(89)
Fair value (losses)/gains recognised in the income statement(1)	(7)	(34)
Fair value gains recognised in other comprehensive income(1)	–	4
Balance at the end of the financial year	452	184
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	8	(6)

(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 $58 million (2012: $129 million) and derivative liabilities are $44 million (2012: $96 million).

Other financial assets at fair value through profit or loss $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[(2)] $m	Total $m
			Consolidated 2013
160	**(110)**	**33**	**719**
–	**–**	**11**	**265**
(79)	**–**	**(11)**	**(487)**
–	**–**	**(9)**	**(9)**
(10)	**40**	**4**	**34**
–	**1**	**(30)**	**(41)**
(2)	**(1)**	**16**	**22**
–	**–**	**–**	**31**
69	**(70)**	**14**	**534**
2	**(1)**	**6**	**31**
			Consolidated 2012
260	(152)	73	1,040
1	–	1	398
(55)	16	(13)	(498)
–	(1)	(20)	(21)
(12)	37	(57)	(63)
16	(8)	24	(73)
(50)	(2)	24	(69)
–	–	1	5
160	(110)	33	719
(38)	4	(2)	(34)

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 38

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	**273**	**93**
Purchases	**172**	**13**
Sales	**(126)**	**(22)**
Issues	**–**	**–**
Settlements	**–**	**–**
Net transfers (out of)/into Level 3	**(109)**	**68**
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**	**–**
Balance at the beginning of the financial year	437	187
Purchases	137	28
Sales	(290)	(37)
Issues	–	–
Settlements	–	–
Net transfers into/(out of) Level 3	1	(89)
Fair value (losses)/gains recognised in the income statement[1]	(12)	1
Fair value gains recognised in other comprehensive income[1]	–	3
Balance at the end of the financial year	273	93
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]	5	–

(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 $296 million (2012: $330 million) and derivative liabilities are $30 million (2012: $72 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 2013
131	**(110)**	**258**	**645**
–	**–**	**14**	**199**
(74)	**–**	**(8)**	**(230)**
–	**–**	**(9)**	**(9)**
(10)	**40**	**4**	**34**
–	**1**	**(9)**	**(49)**
(5)	**(1)**	**16**	**12**
–	**–**	**–**	**(13)**
42	**(70)**	**266**	**589**
(2)	**–**	**5**	**29**
			Bank 2012
214	(145)	77	770
–	–	1	166
(38)	16	(12)	(361)
–	(1)	(19)	(20)
(10)	33	(65)	(42)
13	(10)	10	(75)
(48)	(3)	266	204
–	–	–	3
131	(110)	258	645
(36)	4	245	218

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 38
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 2013 $m	Consolidated 2012 $m	**Bank 2013 $m**	Bank 2012 $m
Balance at the beginning of the financial year	**7**	25	**5**	18
Deferral on new transactions	**23**	11	**2**	11
Amounts recognised in the income statement during the year	**(6)**	(29)	**(6)**	(24)
Balance at the end of the financial year	**24**	7	**1**	5

Note 38

Fair values of financial assets and liabilities continued

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques such as discounted cashflows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
Product type				**Consolidated 2013**
Equity and equity linked products	**15**	**11**	**(14)**	**(11)**
Commodity products	**8**	**–**	**(5)**	**–**
Credit products	**5**	**–**	**(5)**	**–**
Interest rate products	**14**	**–**	**(14)**	**–**
Total	**42**	**11**	**(38)**	**(11)**
Product type				Consolidated 2012
Equity and equity linked products	17	7	(21)	(7)
Commodity products	17	–	(15)	–
Credit products	2	–	(2)	–
Interest rate products	6	–	(6)	–
Total	42	7	(44)	(7)
Product type				**Bank 2013**
Equity and equity linked products	**11**	**1**	**(10)**	**(1)**
Commodity products	**5**	**–**	**(3)**	**–**
Credit products	**5**	**–**	**(5)**	**–**
Interest rate products	**10**	**–**	**(10)**	**–**
Total	**31**	**1**	**(28)**	**(1)**
Product type				Bank 2012
Equity and equity linked products	12	2	(15)	(2)
Commodity products	9	–	(9)	–
Credit products	2	–	(2)	–
Interest rate products	3	–	(3)	–
Total	26	2	(29)	(2)

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 39
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 material transfers of financial assets where the Consolidated Entity retained continuing involvement.

The Bank holds some securitisation interests at 31 March 2013 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 $479 million (2012: $567 million) as at 31 March 2013 and a fair value that approximates the carrying amount. Income of $21 million (2012: $36 million) was generated from securitisation interests during the year and $59 million (2012: $74 million) cumulatively.

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 option

When financial assets are transferred but continue to be recognised to the extent of continuing involvement, this is due to some but not substantially all of the risks and rewards of ownership being transferred, and control of the asset being retained. Examples of such transactions include transfers involving written put options or other instruments linked to the performance of the asset.

Note 39

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 2013 and 31 March 2012:

	Repurchase and securities lending agreements $m	Asset swaps $m	Written put option $m
			Consolidated 2013
Carrying amount of transferred assets[(1),(2)]	**7,535**	**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	**–**	**–**	**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)**
			Consolidated 2012
Carrying amount of transferred assets[(1),(2)]	2,629	8,324	1,014
Carrying amount of associated liabilities[(2)]	(2,616)	(8,220)	(1,023)
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement	–	–	1,013
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	344	7,662	1,061
Fair value of associated liabilities	(320)	(7,560)	(1,023)
Net fair value	24	102	38

(1) The transferred financial assets are presented in Trading portfolio assets $6,784 million (2012: $2,014 million), Investment securities available for sale $1,299 million (2012: $1,043 million) and Loan assets held at amortised cost $7,904 million (2012: $8,910 million) in the statements of financial position.

(2) As a result of an asset swap, included in the carrying amount of associated liabilities is $749 million (2012: $nil) that will be settled partly by the transferred assets with a carrying amount of $749 million (2012: $nil). The Bank has provided a guarantee to the extent of $358 million, and has given $358 million cash collateral to the counterparty that has been set off against the associated liability. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

Notes to the financial statements
for the financial year ended 31 March 2013
continued

Note 39
Transfers of financial assets continued

The following table presents information about transfers of financial assets not derecognised by the Bank as at 31 March 2013 and 31 March 2012:

	Repurchase and securities lending agreements $m	Asset swaps $m	Interests in securitisations $m
			Bank 2013
Carrying amount of transferred assets[1],[2]	**9,572**	**1,835**	**6,536**
Carrying amount of associated liabilities[2]	**(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**
			Bank 2012
Carrying amount of transferred assets[1]	4,140	970	3,046
Carrying amount of associated liabilities	(4,041)	(864)	(3,046)
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	1,855	–	3,046
Fair value of associated liabilities	(1,745)	–	(3,046)
Net fair value	110	–	–

(1) The transferred financial assets are presented in Trading portfolio assets $6,784 million (2012: $2,014 million), Investment securities available for sale $3,336 million (2012: $2,554 million) and Loan assets held at amortised cost $7,823 million (2012: $3,588 million) in the statement of financial position.

(2) As a result of an asset swap, included in the carrying amount of associated liabilities is $749 million (2012: $nil) that will be settled partly by the transferred assets with a carrying amount of $749 million (2012: $nil). The Bank has provided a guarantee to the extent of $358 million, and has given $358 million cash collateral to the counterparty that has been set off against the associated liability. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

Note 40

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 2013 $'000	Consolidated 2012 $'000	**Bank 2013 $'000**	Bank 2012 $'000
PwC – Australia				
Audit and review of financial reports of the Group or controlled entity	**6,012**	5,862	**4,973**	4,622
Other audit-related work	**683**	1,409	**317**	541
Other assurance services	**1,737**	1,022	**740**	252
Total audit and other assurance services	**8,432**	8,293	**6,030**	5,415
Other advisory services	**–**	–	**–**	–
Taxation	**123**	419	**–**	–
Total remuneration paid to PwC – Australian Firm	**8,555**	8,712	**6,030**	5,415
Network firms of PwC Australia				
Audit and review of financial reports of the Group or controlled entity	**5,441**	5,861	**–**	–
Other audit-related work	**43**	45	**–**	–
Other assurance services	**185**	23	**–**	–
Total audit and other assurance services	**5,669**	5,929	**–**	–
Other advisory services	**–**	–	**–**	–
Taxation	**598**	805	**63**	25
Total remuneration paid to network firms of PwC Australia	**6,267**	6,734	**63**	25
Total remuneration paid to PwC (note 2)	**14,822**	15,446	**6,093**	5,440

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 2013
continued

Note 41
Acquisitions and disposals of subsidiaries and businesses

Significant entities or businesses acquired or consolidated due to acquisition of control

Macquarie European Rail

On 4 January 2013, a subsidiary of the Company acquired a new business, a European rolling stock leasing business.

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

Reverse Mortgage Services Pty Limited and L2 B.V.

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

	2013 $m	2012 $m
Fair value of net assets acquired[1]		
Cash and other assets	**19**	295
Other financial assets	**370**	61
Property, plant and equipment	**666**	2,589
Goodwill and other intangible assets	**3**	34
Payables, provisions, borrowings and other liabilities	**(310)**	(2,126)
Total fair value of net assets acquired	**748**	853
Consideration		
Cash consideration	**748**	856
Deferred consideration	**–**	4
Total consideration	**748**	860
Net cash outflow		
Cash consideration	**(748)**	(856)
Less:		
Cash and cash equivalents acquired	**4**	214
Net cash outflow	**(744)**	(642)

(1) In relation to the acquisition of certain subsidiaries of the Non-Banking Group, assets and liabilities acquired are recognised at carrying amounts. In accordance with the Consolidated Entity's accounting policy, the difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in equity. For the year ended 31 March 2013, $nil (2012: $1 million) was recognised in equity.

The operating results of the acquisitions have not had a material impact on the results of the Consolidated Entity.

Included in the current financial year results for the Consolidated Entity is profit of $3 million and revenue of $14 million from Macquarie European Rail since the date of acquisition. If this acquisition had taken place on 1 April 2012, the impact on the current year results for the Consolidated Entity would have been profit of $27 million and revenue of $54 million. The operating results of the remaining acquisitions have not had a material impact on the results of the Consolidated Entity.

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above. The goodwill acquired during the current financial year has arisen due to the value of the businesses acquired over their individual asset values and synergies the Consolidated Entity expects to realise from the acquisitions.

The 31 March 2012 comparatives principally relate to Macquarie AirFinance Limited and Utility Metering Services Limited, being the significant entities consolidated due to acquisition of control.

Note 41

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:

Macquarie Premium Funding Inc., Coin Software Pty Limited, Macquarie Technology Services Pty Limited, Macquarie International Housing and Land Consulting (Shanghai) Company Limited, Macquarie Agricultural Funds Management Limited, Macquarie Crop Partners GP LLC, Macquarie Farm Services Limited, Macquarie Servicos Agricolas Limitada, Melro HoldCo Pty Limited, Harris Dairies Limited, Macquarie Consultoria Agricola E Representacoes Ltda and Macquarie Emerging Markets Infrastructure Securities Fund, Rismark International Funds Management Trust, Ares Capital Management Trust and Macquarie Group Services (Singapore) Pte. Limited.

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

	2013 $m	2012 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash and other assets	**42**	24
Other financial assets	**257**	7
Property, plant and equipment	**9**	61
Goodwill and other intangible assets	**34**	3
Payables, provisions, borrowings and other liabilities	**(109)**	(74)
Non-controlling interests	**(1)**	(1)
Total carrying value of assets and liabilities disposed of or deconsolidated	**232**	20
Consideration		
Cash consideration	**245**	30
Consideration received in equity	**–**	40
Deferred consideration	**3**	–
Total consideration	**248**	70
Net cash flow		
Cash consideration	**245**	30
Less:		
Investment retained	**(4)**	–
Cash and cash equivalents disposed of or deconsolidated	**(16)**	(9)
Net cash inflow	**225**	21

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year ended 31 March 2012.

Note 42

Events after the reporting period

There were no material events subsequent to 31 March 2013 that have not been reflected in the financial statements.

Macquarie Bank Limited
Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 41 to 151 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 2013 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 48; 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 18 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 18.

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
3 May 2013

Independent audit 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 the statement of financial position as at 31 March 2013, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie 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 (Cth)* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001 (Cth)*.

Auditor's opinion

In our opinion:

a) the financial report of Macquarie Bank Limited is in accordance with the *Corporations Act 2001 (Cth)*, including:

   (i) giving a true and fair view of the Bank's and Consolidated Entity's financial position as at 31 March 2013 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 29 of the directors' report for the year ended 31 March 2013. 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 2013, complies with section 300A of the *Corporations Act 2001 (Cth)*.

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
3 May 2013

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

Investor information

Securityholder Calendar

2013

Date	Event
15 July	MIS distribution
25 July	2013 Annual General Meeting
30 September	Half-year financial end
15 October	MIS distribution, MIPS distribution

2014

Date	Event
15 January	MIS distribution
31 March	Full-year financial year end
15 April	MIS distribution, MIPS distribution

2013 Annual General Meeting (AGM)

Macquarie Bank's AGM will be held on Thursday, 25 July 2013 in the Conference Room of Macquarie's Melbourne Office, Level 23, 101 Collins Street, Melbourne, VIC 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 Luxembourg Stock Exchange.

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:

i) one vote for each fully paid ordinary share held
ii) 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:

i) 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
ii) on any proposal to reduce Macquarie Bank's share capital
iii) on any resolution to approve the terms of a buy-back agreement
iv) on any proposal that affects the rights attaching to the preference shares
v) on a proposal to wind up Macquarie Bank
vi) on any proposal for the disposal of the whole of Macquarie Bank's property, business and undertaking
vii) 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

Twenty largest Macquarie Income Securities holders at 22 April 2013:	Macquarie Income Securities	Percentage of Macquarie Income Securities
National Nominees Limited	171,172	4.28
JP Morgan Nominees Australia Limited	144,840	3.62
HSBC Custody Nominees (Australia) Limited	131,622	3.29
Navigator Australia Ltd - MLC Investment Sett A/C	106,892	2.67
M F Custodians Ltd	100,016	2.50
Nulis Nominees (Australia) Limited - Navigator Mast Plan Sett A/C	88,072	2.20
Questor Financial Services Limited - TPS RF A/C	74,059	1.85
BNP Paribas Noms Pty Ltd - DRP	26,714	0.67
RBC Investor Service Australia Nominees Pty Limited - GSENIP A/C	25,807	0.65
Pershing Australia Nominees Pty Ltd - Implemented Portfolios A/C	24,028	0.60
Citicorp Nominees Pty Ltd	20,411	0.51
Temple Society Australia 152 Tucker Road	20,000	0.50
Australian Executor Trustees Limited - No 1 Account	17,546	0.44
RBC Investor Services Australia Nominees Pty Limited - NMSMT A/C	16,238	0.41
UBS Nominees Pty Ltd - TP00014 10 A/C	15,755	0.39
Argo Investments Limited	15,000	0.38
Catholic Church Endowment Society Incorporated	15,000	0.38
UBS Wealth Management Australia Nominees Pty Ltd	13,897	0.35
Sandhurst Trustees Ltd - DMP Asset Management A/C	13,673	0.34
Questor Financial Services Limited - TPS PIP A/C	12,258	0.31
Total	**1,053,000**	**26.34**

Spread of Macquarie Income Securities

Details of the spread of Macquarie Income Securities holders at 22 April 2013 are as follows:

Range	Holders	Securities
1 - 1,000	6,390	1,852,809
1,001 - 5,000	480	914,164
5,001 - 10,000	25	180,027
10,001 - 100,000	15	398,458
100,001 securities and over	5	654,542
Total	**6,915**	**4,000,000**

5 securityholders (representing 13 Macquarie Income Securities) held less than a marketable parcel.

Macquarie Income Preferred Securities

As at 22 April 2013, £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 5006
Facsimile: +61 2 8232 4330

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	*Corporations Act 2001 (Cth)*
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
BAC	Board Audit Committee
the Bank	Macquarie Bank Limited
Banking Group	the Banking Group comprises Banking and Financial Services Group (BFS), Corporate and Asset Finance Group (CAF), Fixed Income, Currencies and Commodities (FICC), Macquarie Funds Group (MFG) and the trading activities of the Macquarie Securities Group (MSG). There is also one division within the Banking Group; Real Estate Banking Division (REB)
BBSW	Australian Financial Markets Association's bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR, etc
the Board	the Board of Voting Directors of Macquarie Bank Limited
BRC	Board Remuneration Committee
CAGR	compound annual growth rate
CEO	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
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
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
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
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
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
RMG	Risk Management Group
ROE	return on equity
RSU	Restricted Share Unit issued under the MEREP
S&P	Standard & Poor’s
SPE	Special Purpose Entity
TSR	total shareholder returns
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Bank Limited as defined in the Bank's Constitution

CONTACT DETAILS

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