MACQUARIE GROUP
2012 ANNUAL FINANCIAL REPORT

MACQUARIE

MACQUARIE GROUP LIMITED ACN 122 169 279

Macquarie Group Limited's 2012 Annual Report consists of two documents – the 2012 Annual Review and the 2012 Annual Financial Report.

This 2012 Macquarie Group Annual Financial Report complies with reporting requirements and contains the statutory financial report. It includes Macquarie's Corporate Governance Statement, the Directors' Report including the Remuneration Report and the full financial statements.

The 2012 Annual Review contains a report from the Chairman and Managing Director on Macquarie's business and operational highlights. It is not a concise report prepared under section 314 (2) of the Corporations Act. Macquarie Group has not prepared a concise report for the 2012 financial year.

If you would like a copy of the 2012 Annual Review please call us on +61 2 8232 5006 or visit macquarie.com.au/investorrelations.

2012 Annual General Meeting

Macquarie Group's 2012 Annual General Meeting will be held at 10:30am on Wednesday 25 July 2012 at the Four Seasons Hotel (Grand Ballroom), 199 George Street, Sydney NSW.

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

The Holey Dollar

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

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

Macquarie Group Limited
2012 Annual Financial Report

Corporate Governance Statement

Macquarie's approach to Corporate Governance

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

— promote the long term profitability of Macquarie while prudently managing risk

— drive superior and sustainable shareholder value over the long term through the alignment of the interests of shareholders and staff

— meet stakeholder expectations of sound corporate governance as part of Macquarie's broader responsibility to clients, shareholders, investors and the communities in which it operates.

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

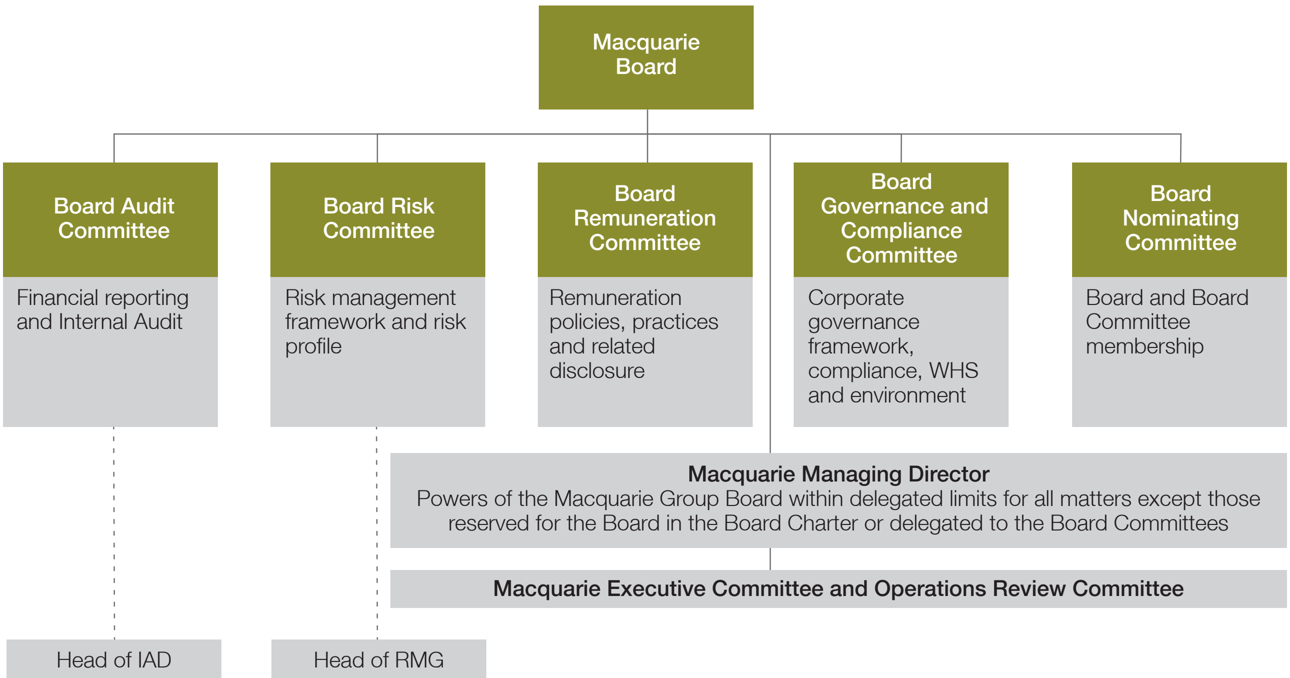
Macquarie Group Limited (Macquarie) is a global financial services specialist. Its shares are listed on the Australian Securities Exchange (ASX). ASX listed companies are required to report on the extent to which the company has followed the governance recommendations set by the ASX Corporate Governance Council (ASX Recommendations) during the reporting period. Macquarie considers that during the year it has followed the governance arrangements set out in the ASX Recommendations. A summary of the ASX Recommendations and reference to the applicable Macquarie governance practice is available on Macquarie's website at macquarie.com.au.

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

During the year, Macquarie continued to monitor regulatory and corporate governance developments and their impact on Macquarie's businesses. The level of global regulation remains a key challenge.

On 19 May 2011, Diane Grady was appointed to the Boards of Macquarie and Macquarie Bank and on 21 December 2011, Greg Ward was appointed Deputy Managing Director of Macquarie and Chief Executive Officer and Managing Director of Macquarie Bank upon Richard Sheppard's retirement from those positions. Other than expanding the responsibilities of the Board Corporate Governance Committee (since renamed the Board Governance and Compliance Committee) to include oversight of work health and safety (WHS) and environmental matters on behalf of the Board in December 2011, Macquarie's corporate governance framework remained unchanged during the year.

Corporate Governance Framework



Board Oversight

The Macquarie Board consists of nine Voting Directors, eight of whom are independent. Nicholas Moore, Macquarie's Managing Director and Chief Executive Officer, is the only executive on the Board. The table below sets out the current composition of the Board and the membership of each Board Committee. Details of each Voting Director's experience is summarised in Schedule 1 of the Directors' Report contained in this Annual Financial Report. Schedule 1 also includes the date of each Voting Director's appointment to the Board.

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

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

The Board has reserved certain matters for its approval and has delegated specific authorities to its various Board Committees. The Managing Director, who is also Macquarie's Chief Executive Officer, has been granted general authority for those matters not reserved for the Board or Board Committees. Macquarie's Executive and Operations Review Committees operate as management committees pursuant to the Managing Director's delegated authority.

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

Board Committees

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

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

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

Board and Committee membership

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

Corporate Governance Statement
continued

Allocation of responsibilities between Board Committees

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

The **Board Audit Committee** (BAC) assists the Board with its oversight of the integrity of the financial statements including compliance with the requirements of the *Corporations Act 2001 (Cth)* (the Act) as well as other mandatory professional reporting requirements. In addition, it is responsible for reviewing the adequacy of the Group's APRA regulatory reporting control framework and monitoring the internal control environment. In this role, the BAC oversees the annual plans of the Internal Audit and Credit Assurance functions.

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

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

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

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

Kevin McCann voluntarily submitted himself for re-election at the 2011 Annual General Meeting having been appointed Chairman in March 2011 on the resignation of David Clarke from the Board due to illness. As the notice of meeting indicated, the appointment extended Mr McCann's tenure beyond Macquarie's Board renewal policy tenure limit.

Independent Directors

Macquarie recognises that independent directors are important in assuring shareholders that the Board is able to act in the best interests of Macquarie and independently of management. Eight of the Macquarie Board's nine members, including the Chairman, are independent directors.

The independence of directors is reviewed annually by the BGCC. Based on Macquarie's criteria for assessing director independence, each independent director is asked to confirm whether they have any interests or relationships that may impact either on their ability to act in the best interests of Macquarie or independently of management. Disclosed interests are reviewed by the BGCC to determine whether the interest would materially interfere with the exercise of a non-executive director's independent judgement. Materiality is assessed having regard to each individual director's circumstances, the circumstances of any associated supplier, customer or advisor and any other significant relationships with Macquarie or its subsidiaries.

At its meeting in February 2012, the BGCC confirmed that Diane Grady, Michael Hawker, Peter Kirby, Catherine Livingstone, Kevin McCann, John Niland, Helen Nugent and Peter Warne continued to be independent directors.

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

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

Board performance

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

The Board and Directors

All new Directors are involved in an induction program to familiarise themselves with Macquarie, its procedures and prudential requirements and Board practices. The Board reviews its performance and the performance of each director on an annual basis with a focus on directors standing for re-election at the next Annual General Meeting (AGM). The process for conducting the review is agreed by the Board and typically includes individual interviews by the Chairman or an external facilitator with each director and the use of a questionnaire to cover matters such as:

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

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

In 2012, the Board's review is being undertaken in accordance with the process described above and with the assistance of an external facilitator.

Board Committees

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

Performance of key executives

Formal processes, summarised below, have been adopted by Macquarie to review the performance of Macquarie's most senior executives. As part of the review, the NEDs approve the remuneration of the Managing Director and Executive Committee members.

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

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

The Board and Management seek to ensure that remuneration for the Head of the Risk Management Group is determined in a way that preserves the independence of the function and maintains Macquarie's robust risk management framework. The performance and remuneration of the Head of Internal Audit is reviewed annually by the BAC.

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

Corporate Governance Statement
continued

Ethical and responsible decision making

Code of Conduct

Macquarie has adopted a *Code of Conduct*, which incorporates Macquarie's *Goals and Values (What We Stand For)*. The *Code of Conduct* is also reflected in, and supported by, a broad range of Macquarie's internal policies and practices.

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

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

Integrity office

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

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

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

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

Dealing with potential conflicts

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

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

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

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

— Board members declaring their interests as required under the Act, the ASX Listing Rules and general law requirements

— Board members with a material personal interest in a matter not receiving the relevant Board paper and not being present at a Board meeting during the consideration of the matter and subsequent vote, unless the Board (excluding the relevant Board member) resolves otherwise

— Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board.

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

Staff and Director trading

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

— pre-clear securities trading: Directors and staff must pre-clear their securities trading with Macquarie

— trading windows: Generally, Directors and staff may only trade in Macquarie securities and related derivatives during designated trading windows. These are typically of three to five weeks duration and follow Macquarie's announcement of its interim and full year profits and after the Annual General Meeting (AGM)

— excluded dealings: Certain types of transactions such as acquisition of securities under an employee share plan or participation in the dividend reinvestment plan may be effected outside a trading window without pre-clearance

— trading prohibition while in possession of material non-public price-sensitive information: In all cases Macquarie prohibits Directors and staff from dealing in any security, including a Macquarie security, if they possess non-public price-sensitive information about or affecting the relevant security
— unvested options, retained shares and minimum shareholding requirements cannot be hedged: Staff are not permitted to undertake any action that is designed to limit their exposure to Macquarie shares which are subject to retention arrangements, or their unvested Macquarie options. NEDs may also not enter into a transaction that operates to limit the economic risk of their Macquarie shareholding below their minimum shareholding requirement
— net short positions not permitted: Directors and employees are not permitted to take net short positions in Macquarie shares or any securities in Macquarie-managed funds.

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

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

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

Sustainability, diversity and the community

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

Macquarie's approach to sustainability is detailed in the Sustainability section of this Annual Financial Report. A Global Reporting Initiative (GRI) index is also provided. Macquarie has maintained its carbon neutral commitment and has pursued business opportunities aligned with its specialist expertise in renewable energy, energy efficiency, environmental investments, carbon markets and ESG research.

Macquarie is committed to the implementation of safe work practices and aims to provide an injury free workplace for all its employees.

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

Macquarie engages in the wider community through the Macquarie Group Foundation (the Foundation). In the year to 31 March 2012, the Foundation and Macquarie staff contributed a total of $A21.3 million to hundreds of community organisations globally. There are also a number of Foundation-coordinated volunteer programs.

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

Financial reporting

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

— the integrity of Macquarie's financial reporting and, as part of this role, the operation of the financial reporting processes. The processes are aimed at providing assurance that the financial statements and related notes are complete, in accordance with applicable legal requirements and accounting standards, and give a true and fair view of Macquarie's financial position. During its review of Macquarie's interim and year-end financial reports the BAC meets with the external auditor in the absence of management
— the external auditor engagement. The BAC reviews the appointment, the terms of the engagement and the performance of the external auditor, prior to making recommendations to the Board on the appointment and removal of the external auditor
— the operation of the Internal Audit and Credit Assurance (CA) functions. The BAC reviews the appointment and performance of the Head of the Internal Audit Division (IAD), as well as the remuneration arrangements in place, to maintain the objectivity of the Internal Audit function. It also monitors the scope and implementation of the IAD and CA annual plans
— Macquarie's APRA regulatory reporting control framework and other banking regulatory reporting as relevant.

Corporate Governance Statement
continued

Auditor independence

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

Macquarie's *Auditor Independence Policy* requires BAC approval, or between meetings the approval of the BAC Chairman, for material non-audit work performed by its auditors. Also in accordance with the policy, Macquarie's audit engagement partner and review partner must be rotated every five years. Macquarie's lead audit engagement partner rotated at the conclusion of the 2008 financial reporting period.

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

Chief Executive Officer and Chief Financial Officer declaration

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

Macquarie's senior management has also reported to the Boards of Macquarie and Macquarie Bank on the effectiveness of the management of material business risks for the year ended 31 March 2012.

Commitment to shareholders and an informed market

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

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

— factual and reviewed internally before issue

— timely and expressed in a clear and objective manner

— lodged with the ASX as soon as practical.

An *External Communications Policy* summary is available on Macquarie's website.

Shareholder meetings

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

This year Macquarie's AGM will be held in Sydney and the Macquarie Bank AGM will be held on the same day, after the Macquarie AGM. Other general meetings may be held as required during the year.

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

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

Online proxy voting is also available to shareholders. Unless specifically stated in a notice of meeting, all holders of fully paid ordinary shares are eligible to vote on all resolutions. Holders of Macquarie Income Securities have the right to attend the Macquarie Bank AGM, at which they have limited voting rights, as set out in the terms of their issue, which are available on Macquarie's website.

A Shareholder Calendar is available on Macquarie's website.

Macquarie's website

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

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

Oversight of risk management

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

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

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

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

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

Remuneration

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

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

To more closely align the interests of the Board with shareholders, NEDs are required to progressively acquire a minimum of 6,000 shares over the five years from the date of their appointment. Each NED's remuneration and current Macquarie shareholding are set out in the Remuneration Report and the Key Management Personnel disclosure in the notes to the financial statements in the 2012 Annual Financial Report.

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

Corporate Governance in Macquarie-managed funds

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

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

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

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

Diversity Report

The diversity of our people remains fundamental to Macquarie's success. Their broad range of experiences, skills and views continue to be key strengths and critical to the wide range of services we deliver to clients and the communities in which we operate.

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

Global Diversity Policy

Macquarie's *Workforce Diversity Policy* defines Macquarie's workforce diversity commitment and the structures in place to ensure it is realised. The principles contained in our *Workforce Diversity Policy* are incorporated in the public *Our Commitment to Workforce Diversity* statement available on Macquarie's website.

Female representation metrics

For the year ending 31 March 2012, the proportion of women employed globally at Macquarie was as follows:

- Board of Directors: 33.3 per cent
- Executive Committee: 10 per cent
- Senior Executive: 12.9 per cent
- Macquarie Workforce: 36.9 per cent.

Diversity objectives

The *Workforce Diversity Policy* provides that each year the Board will set measurable objectives for achieving gender diversity.

For the year ending 31 March 2013, Macquarie has affirmed the gender diversity objectives communicated in last year's Annual Report as reflecting its key strategic imperatives and desired long-term outcomes.

Details of Macquarie's progress in realising these objectives during the year ended 31 March 2012 are set out in the following table.

Gender Diversity objectives

Strategic imperative	Long-term outcome sought	Objective	Progress FY12
Diverse talent pipeline	Increase the number of females hired by Macquarie by increasing the rate of female applications.	Embark on a long-term plan to attract females to a finance career: — conduct research to better understand the industry-wide imbalance in female applicants, address the perceived barriers and articulate the unique value proposition of a finance career for females — strengthen relationships with female undergraduates through campus-based initiatives such as mentoring, student societies and academic prizes/scholarships — widen the talent pool of potential senior female applicants through targeted research and sourcing programs.	Macquarie's diversity recruitment strategy and market positioning continues to evolve in response to ongoing research activity, including focus groups with male and female undergraduates attending Australian universities. A focus on increased collaboration with female students has led to the design of a pilot development program for undergraduates, aimed at promoting a finance career and profiling successful female role models working in the industry. Macquarie's decision to enter into a strategic partnership with a leading recruitment and talent management company has provided a unique opportunity to leverage external expertise in diversity-focused recruitment programs.
Inclusive workplace	Retain top talent by ensuring a workplace supportive of female success.	Raise awareness of Macquarie's commitment to supporting females in their development of successful careers through endorsement and delivery of a range of programs, events and policies.	There has been development and delivery of a range of initiatives to ensure a workplace supportive of female success. These include the extension of parental leave support, regular networking events, and participation in key programs such as the Women in Banking and Finance (WiBF) mentoring program.
Robust meritocracy	Ongoing improvement of core talent processes (performance, development and career) to ensure gender-based equity and transparency.	Continue to enhance Macquarie's development offerings including the ongoing review of programs to incorporate key diversity concepts.	A new program, 'Managing People and Teams', with content tailored to reflect Macquarie's commitment to diversity, provides Managers with practical skills to support diversity in their own teams. A review of Macquarie's leadership programs has been conducted to ensure the content reinforces Macquarie's commitment to building and promoting diversity.
Integration and awareness	Embedding of diversity awareness and objectives into the day-to-day operations of the organisation to become part of the way we do business.	Incorporate diversity-related messaging into newsletters, conferences and other communication forums with staff. Equally engage the male and female staff population in diversity based initiatives such as training programs and networking opportunities.	A variety of forums have been targeted in order to embed diversity awareness and objectives into the day-to-day operations of Macquarie. These include: — presentations at staff conferences — a dedicated *Women@Macquarie* website, and — active involvement of males in Diversity networking events.

Sustainability Report

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

To gain a complete view of Macquarie's approach to ESG issues, these pages should be read in conjunction with other sections of Macquarie's 2012 Annual Report including: Corporate Governance Statement, Diversity, Risk Management, Remuneration, Macquarie Group Foundation and the Financial Report.

Macquarie drives new business opportunities and works to embed ESG into its diverse activities with a focus on the following: ESG governance and risk management; direct operations; investments markets and products; and workplace.

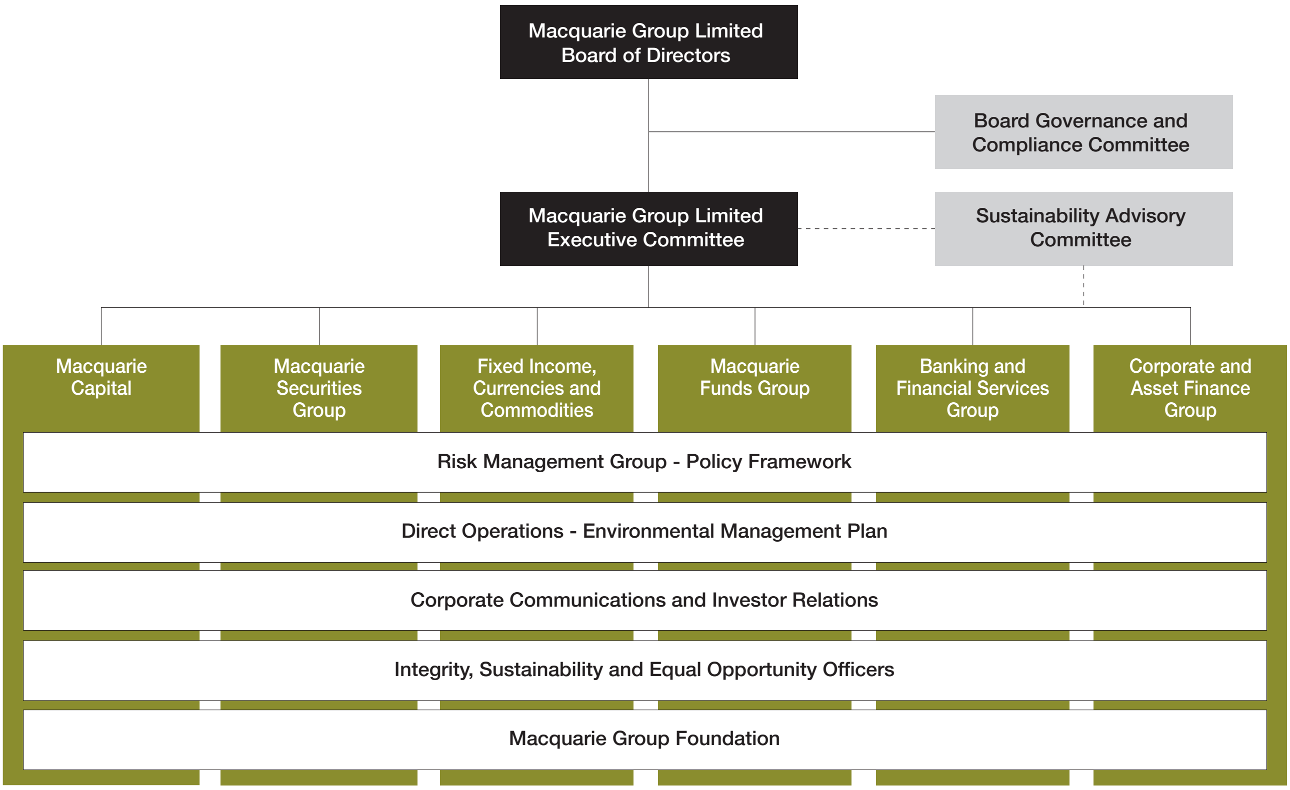
In the year to 31 March 2012, Macquarie made progress in these areas:

- maintained carbon neutrality across premises energy use and corporate air travel
- reduced total carbon emissions by 4.2 per cent compared with FY2011
- relocated staff to more sustainable premises in Mumbai and announced that new Sydney offices at 48 Martin Place will be targeting the highest sustainability ratings
- published 21 specialist ESG research reports and more than 260 pieces of renewable energy research for clients, investors and staff
- received the Ethical Investor Award for Sustainability Research and the ESG Research Australia Award for Best Piece of ESG Research
- continued to build business in global carbon markets, clean technology and renewable energy and launched new business initiatives in energy efficiency and waste remediation
- made an ongoing contribution to public policy reviews
- continued investment in training and development of staff.

ESG governance and risk management

Overall responsibility for ESG resides with Macquarie's Board and management which set the direction for the organisation. The Board Governance and Compliance Committee is responsible for monitoring aspects of ESG performance including environmental compliance and work health and safety across operating businesses.

Macquarie's Sustainability Advisory Committee comprises senior Macquarie executives whose business roles or compliance functions intersect with ESG issues. The Sustainability Advisory Committee operates as a Macquarie-wide review board for ESG policy development and plays an important role in guiding Macquarie's ESG approach. Macquarie's Sustainability and Environment Office coordinates a diverse range of sustainability and ESG activities undertaken across Macquarie.



Macquarie's *Goals and Values* and *Code of Conduct* provide the foundation for Macquarie's strong risk management focus which is detailed in the Risk Management Report. The approach to risk management includes a well established framework of ESG-related policies that apply across all Macquarie's divisions and entities and cover the following areas:

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

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

Macquarie's risk management approach also incorporates business-specific policies that address ESG issues in a manner appropriate to each business line. For example, managing environmental and social issues in asset selection, integration of ESG factors into quantitative analysis or ESG engagement in private equity portfolios. Business lines also employ independent impact assessments, develop compliance plans and regularly report on environmental risk management consistent with Macquarie's Environmental Risk Management Framework. For the financial year to 31 March 2012, Macquarie is not aware of any material environmental issues or penalties within businesses it controls.

Public policy and political engagement

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

Political donations

Importantly, any requests for financial assistance are assessed with the aim of ensuring that multi-party systems deliver both good government and good opposition. In Australia, Macquarie achieves this objective by providing equal financial support to both major political parties. Macquarie has also made political donations in New Zealand and Canada using the same policy approach. Australian political donations account for over 97 per cent of Macquarie Group's total global political donations. Macquarie discloses all of its political contributions in Australia to the Australian Electoral Commission on an annual basis.

Preventing money laundering, terrorist financing and corruption

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

Macquarie is committed to being a responsible participant in the financial markets in which it operates. It maintains a risk management framework that is designed to minimise the risk of its products and systems being used to facilitate the crimes of money laundering and terrorist financing.

The framework also supports Macquarie's anti-corruption and anti-bribery initiatives. This includes policies and procedures, training, governance standards, escalation protocols and assurance activities.

The framework ensures that Macquarie:

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

Macquarie employees are required to undertake training to understand their obligations under the relevant laws and regulations governing anti-corruption, anti-bribery and anti-money laundering. In the year to 31 March 2012, Macquarie staff completed mandatory annual compliance training, which supported ongoing knowledge of obligations in these areas.

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

Sustainability Report
continued

Direct operations

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

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

— **sustainable buildings** – investing in sustainable buildings and fit outs

— **resource use reduction** – reducing paper, waste and water usage

— **sustainable procurement** – engaging in sustainable procurement practices.

Carbon emissions

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

In the year to 31 March 2012, Macquarie's total emissions reduced by 4.2 per cent from 2011. This is the first reduction in absolute emissions since establishing the Carbon Commitment and was driven by a decrease in Scope 3 emissions.

Reducing energy use – In FY2012, Macquarie continued efforts to reduce office and data centre energy use through a program of activities such as relocations to more energy efficient premises, premises consolidations, lighting retrofits, and set-point optimisations within existing premises.

Despite these efforts, Scope 2 indirect electricity emissions increased by 1.1 per cent for the 12-month period ending 31 March 2012 compared to FY2011. Increased emissions from electricity use were primarily driven by increasing IT energy demand including on-boarding of data centres associated with acquisitions, trading business demand and piloting of virtualisation technology.

The objective for FY2013 is to reduce emissions associated with electricity consumption with a specific focus on implementation of IT solutions. Notwithstanding the slight increase in emissions from electricity use, Macquarie maintained a cumulative reduction of 9.7 per cent in per capita electricity emissions compared to its 2009 baseline.

Offsetting emissions – To offset Macquarie's remaining Scope 2 and 3 emissions and achieve carbon neutrality for corporate offices and air travel, Macquarie purchased and retired carbon offsets for the year to 31 March 2012.

Macquarie acquired a diverse portfolio of offsets, focusing on project quality and verifiable emissions reductions. Gold Standard and Voluntary Carbon Standard carbon credits were purchased from projects in Turkey, Uganda, China and the United States. These projects, supported by the sale of carbon credits on international markets, provide sustainable energy solutions to the countries and communities in which they operate. For FY2013, Macquarie intends to continue its Carbon Commitment. All emissions and offset data have been independently assured.

Sustainable buildings

Focusing on sustainable buildings is a critical way for Macquarie to reduce direct resource consumption and greenhouse gas emissions. Originating from its One Shelley St building in Sydney, which achieved a 6 Star Green Star office design rating from the Green Building Council of Australia, Macquarie aims to ensure all new premises are designed and constructed to achieve a 6 Star Green Star, LEED Platinum or BREEAM Excellent Rating. All tenancy refurbishments aim to achieve a 5 Star Green Star, LEED Gold or equivalent rating for the jurisdiction.

In FY2012, Macquarie completed the fit-out of new premises in Mumbai. While this office has not yet secured green building certification, the fit-out incorporated sustainable building elements such as rainwater capture and reuse, efficient light fixtures with time and occupancy-based controls and onsite waste management and sorting.

In FY2013, Macquarie's sustainable building activities will focus on the design and fit out of the new Sydney premises at 48 Martin Place. This flagship building will be targeting the highest possible sustainability rating.

Resource use reduction

Macquarie has implemented initiatives to reduce paper use such as managed print, double-sided printing, and, where appropriate, use of 'follow-me' printing. These initiatives have resulted in total paper use and per capita paper use reductions in major office locations. In addition, Macquarie has established catalogue management processes to allow only the purchase of certified or recycled copy paper. In FY2013, focus will be on the continued roll-out of paper reduction efforts and continued tracking of certified paper use.

Following the FY2011 sustainability audits of its offices, Macquarie has now implemented standardised waste recycling and water management programs wherever tenancy arrangements allow. In FY2013, Macquarie will continue to identify opportunities to improve waste management and water use in offices housing more than 100 staff.

Sustainable procurement

Engaging with suppliers on sustainability remains a key opportunity for Macquarie. A pilot will be conducted as part of an ongoing procurement strategy review. Policies and practices for sourcing, procurement and supplier management are being reviewed.

Carbon and energy data for corporate offices[1] and business air travel[2]

	Baseline[3]				Change	
	FY09	FY10	FY11[4]	FY12	Prior Year	Baseline
Scope 2 indirect electricity emissions per capita (tCO_2-e per person)	3.93	3.49	3.35	3.55	5.97%	-9.7%
Total Scope 2 indirect electricity emissions (tCO_2-e)	49,632	50,923	51,941	52,497	1.1%	5.8%
Australia/NZ	31,874	31,881	28,883	28,453	-1.5%	-10.7%
International	17,758	19,042	23,058	24,044	4.3%	35.4%[5]
Scope 3 indirect emissions business air travel (tCO_2-e)	n/a	78,018	79,330	73,260	-7.7%	-6.1%
Total Scope 2 and Scope 3 emissions (tCO_2-e)	–	128,941	131,271	125,756	-4.2%	n/a
Office energy use (terajoules)	237	251	268	275	2.6%	16%

1 Corporate offices are defined as:
- offices leased by MGL operating entities which are also occupied by MGL staff and have a Net Usable Area (NUA) greater than $100m^2$.
- data centres considered to be under the ongoing operational control of a Macquarie Group operating entity.
- new offices from business acquisitions from the month of acquisition.

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

3 Note that the baseline for Scope 2 electricity emissions is FY2009 while, due to data availability, the baseline for Scope 3 air emissions is FY2010.

4 Some numbers in this column have been revised from last year's Report to reflect updated invoice data from international premises. As a result the FY2011 international premises data has been restated in this year's report as 23,058 - an increase of 259 tCO_2-e.

5 This increase was driven by increased electricity use associated with information technology including data centres, trading business demand and piloting of virtualization technology.

Further details regarding the preparation of data are provided on page 218.

Sustainability Report
continued

Investments, markets and products

Macquarie Securities

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

The ESG Research team focuses on environmental, social and governance issues as part of its detailed analysis of listed stocks and its application of an integrated approach, giving top down analysis followed by bottom-up stock valuations. The team published 21 specialist ESG reports in FY2012.

The global Alternative Energy Research team covers listed wind, solar, metering and battery companies around the world. The team is co-ordinated from London with analysts located in Hong Kong, Taiwan, Sydney and New York. The team published 260 pieces of research in FY2012.

Industry recognition

During FY2012, Macquarie received:

— top 3 ranking in the Institutional Investor Survey Europe for renewable energy research

— top 3 ranking for its Australian ESG research

— Ethical Investor Award for best Sustainability Research 2011

— ESG RA award for Best Piece of ESG Research.

Engaging investment community

During FY2012, Macquarie continued its ESG engagement across Australian corporates, investors, industry bodies and academic communities. In November 2011, Macquarie Securities hosted its third annual ESG Conference for Australian fund managers and asset owners. The conference ‘Putting the ‘S’ in ESG’, featured corporate and industry specialists addressing key social issues such as social licence to operate, indigenous employment, occupational health and safety, and employee engagement.

Macquarie analysts presented at many external ESG conferences and forums including the UN Principles for Responsible Investment Academic Network Conference.

Macquarie Capital

Macquarie Capital has been an active investor and advisor in the alternative energy and social infrastructure sectors for over 15 years. Macquarie Capital has global experience in executing and advising in these areas through its Infrastructure, Utilities and Renewables team, which draws on its sector expertise, global network and strong track record to deliver these projects for government and corporate clients.

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

— corporate advisory

— equity capital markets

— debt capital markets.

Advisory activity

During FY2012, Macquarie Capital advised on 19 transactions with a total deal value of $8.1 billion. Example transactions include:

— SolarReserve’s Crescent Dunes Solar Power Project in Nevada, USA: The 110MW Crescent Dunes concentrated solar power plant utilises first-in-kind technology and will be America’s first commercial scale concentrated solar power tower with fully integrated molten salt energy storage, and the largest in the world

— capital raising for Huaneng Renewables Corporation, the wind power unit of China’s biggest electricity producer, for its $US799 million Hong Kong IPO

— adviser to Samsung Engineering on the 100,000m^3/day Muharraq Wastewater Treatment Plant and Sewage Conveyance PPP in Bahrain

— sponsor of the $A1.85 billion Royal Adelaide Hospital PPP, the largest social infrastructure PPP in Australia.

Fixed Income, Currencies and Commodities

Fixed Income, Currencies and Commodities has an experienced global team dedicated to trading environmental financial products.

With staff in London, Hong Kong, Beijing and Sydney, the Environment Financial Products team provides:

— a full-service trading desk making physical and derivative markets in European Union emissions allowances and Certified Emission Reductions (CER) as well as dealing in domestic emission allowances and renewable energy certificates across multiple jurisdictions

— international emissions reduction projects for direct investment and carbon credit purchase

— inventory financing for environmental markets compliance unit holdings

— debt/equity investment and derivative financing for emissions abatement and renewable energy projects

— tailored environmental risk management solutions from simple hedge structures to complex structured derivatives.

Reducing emissions through CDM

Macquarie has been investing in Clean Development Mechanism (CDM) projects since 2006. As at 31 March 2012 the Environmental Financial Products team was involved in 47 CDM projects which are expected to generate over 72 million emissions credits.

During the year Macquarie completed implementation of its first CDM project in Uzbekistan. The project reduces gas leaks in the capital city and surrounding regional networks by repairing infrastructure, training local staff, introducing new processes and practices, providing new sealing materials and electronic detection equipment. The completion of this project generated social as well as environmental benefits. It builds on Macquarie’s reputation in the gas sector as a trusted partner working with existing owners on community assets.

Corporate and Asset Finance

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

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

Energy Efficient Asset Financing Program

Established in November 2011, the Energy Efficient Asset Financing Program is an alliance between Macquarie and Low Carbon Australia. The program will initiate a new source of finance to stimulate uptake of, and investment in, clean energy technologies in existing commercial buildings and industries throughout Australia. Equipment that may be financed includes: energy-efficient lighting systems, heating, ventilation and air-conditioning, and computer hardware.

Expansion of smart metering

Macquarie continued to increase its funding lines to UK energy retailers to facilitate the accelerated roll-out of smart gas and electricity meters that assist efficient energy management in the industrial, commercial and residential sectors.

Macquarie currently funds 370,000 smart meters in the UK and has recently been awarded several significant additional smart meter funding contracts which are expected to result in leasing a further 435,000 smart electricity and gas meters. This will see Macquarie finance a total to 805,000 smart meters by 31 March 2013.

Macquarie will continue to work closely with the UK government and energy suppliers to facilitate an effective roll-out of smart meters to 27 million homes by the end of 2019.

Macquarie Funds

Macquarie Funds' focus on ESG covers a range of initiatives. These include:

- MFG's infrastructure and real assets business managing eight renewable energy portfolio businesses
- Dedicated Socially Responsible Investing (SRI) products managed by Delaware Investments
- ESG training for Australian fundamental analysts and portfolio managers to support integration of ESG factors into analysis
- ESG policies for listed equities in Australia and the private markets business globally. The private markets team engages with investment managers and uses advisory board seats to positively influence the way in which ESG risks are managed within underlying portfolios.

In 2011, MFG was appointed to the Financial Services Council ESG Working Group.

Specialised investment products

Macquarie Funds also provides certain specialised sustainable investments or screened products including:

- **Delaware Investments SRI products** – Delaware Investments has longstanding experience in ESG investing and offers a spectrum of specialist products to investors. The Delaware Socially Responsible strategy applies a social screen to focus on investing in companies that incorporate positive ESG behaviour into their business operations. The screen is a blend of balanced scorecard and negative screening approaches. Total assets of $US695 million were being managed in this strategy as at 31 March 2012.
- **Macquarie Clean Technology Fund** – The fund provides a diversified portfolio of private equity investments that focus on technologies that improve energy efficiency and reduce negative environmental impacts.

Banking and Financial Services

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

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

Avoided deforestation

During FY2012 the Real Assets Team in BFS' Global Investments (MGI) Division completed a $A25 million institutional capital raising to extend its portfolio of projects that invest in the retention of forests at risk of deforestation. Initial projects are located in Indonesia and are developed in partnership with conservation organisation Fauna & Flora International.

Supporting environmental markets

MGI is a majority owner of Envex which owns a majority stake in the leading Australian environmental and electricity markets brokerage Next Generation Energy Solutions (NGES) as well as the leading platform for trading of third party water rights in Australia.

Tailored ESG investments

Macquarie Private Portfolio Management (MPPM) offers clients customised investment solutions aligned to their specific ESG goals or screening preferences. For clients seeking guidance on ESG-aware investments, Macquarie also provides model portfolios with a broad, socially responsible investing bias utilising both internal and external factors. All clients investing in MPPM-managed strategies have access to a research process that includes embedded ESG-focused factors that drive a company's long-term valuation and determine suitability for investment. The combined Funds Under Management covered by these strategies is $A1 billion.

Sustainability Report
continued

Approach to climate change

Macquarie's approach to climate change is based on:

— assessing and managing its own carbon footprint

— identifying, assessing and managing the risks arising from climate change and future carbon constraints

— identifying and leveraging opportunities for investment and trading for Macquarie and its clients.

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

— businesses are responsible for considering greenhouse and energy management during due diligence for new businesses and products

— Macquarie's *Greenhouse and Energy Reporting Policy* addresses local legislative requirements through tailored jurisdictional guidelines

— Macquarie provides clients and staff with research and information about the economic, policy and business impacts of climate change

— Macquarie also uses its expertise in global carbon markets to assist clients to prepare for compliance with emissions trading and provides emissions risk management products.

Macquarie does not consider its businesses to have any material exposure to climate change regulatory risk. Macquarie continues to monitor developments in climate change regulation around the world. As a signatory to the CDP, Macquarie reports detailed information about its approach to the risks and opportunities arising from climate change. Macquarie's annual responses are available on the CDP website.

People and workplace

Integrity and good decision making

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

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

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

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

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

Learning and development

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

Macquarie launched its new learning platform in FY2012 (My Learning). Available to all employees, My Learning empowers staff globally to access programs that promote skills management and lifelong learning and, in conjunction with performance appraisals, assists them to manage their own careers. In the nine months since the launch, a total of almost 650 classroom events have been delivered globally and a further 706 online courses and 95 knowledge tests have been made available including compliance-related training for new and existing staff (focusing on fraud awareness, anti-bribery, anti-money laundering/counter-terrorism financing and other financial services compliance issues) as well as leadership courses and materials on financial services products.

In addition to Macquarie delivered programs, many employees benefit from sponsored education and can pursue career development opportunities at independent institutions or, as has been the case with a total of almost 300 participants, a Master of Finance offered by INSEAD in conjunction with Macquarie.

As part of Macquarie's leadership development efforts, Macquarie provides customised management and leadership programs, executive coaching and mentoring. During the year 326 people have attended at least one of Macquarie's global leadership programs and a further 400 attendees – spanning a wide demographic range – participated in one of seven regional development programs.

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

Diversity

The diversity of its people remains fundamental to Macquarie's success. Their broad range of experiences, skills and views continue to be key strengths and critical to the wide range of services Macquarie delivers to clients and the communities in which it operates.

At the end of the year, Macquarie's workforce comprised approximately 46.6 per cent in ANZ, 24.1 per cent in the Americas, 19.7 per cent in Asia and 9.6 per cent in EMEA. Part-time work is accommodated where possible and employees on part-time hours have eligibility for the same types of benefits as full-time employees, unless there is a local legal or regulatory requirement to restrict eligibility on that basis.

The range of programs supporting Macquarie's workforce include:

— parental leave support
— regular networking events that promote awareness of gender diversity and encourage the active involvement of female and male staff
— participation in key programs such as the Women in Banking and Finance (WiBF) mentoring program
— tailored 'Managing People and Teams' leadership program, and
— a dedicated *Women@Macquarie* intranet site.

Macquarie's diversity recruitment strategy and market positioning continues to evolve and the decision to enter into a strategic relationship with a leading recruitment and talent management company provides a unique opportunity to leverage external expertise in diversity-focused recruitment programs.

More detailed information about Macquarie's approach to diversity is provided on pages 10 and 11.

Work Health and Safety

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

Macquarie promotes a proactive approach to health and safety and aims to continually improve its WHS practices across the organisation by regularly reviewing established policies, procedures, systems practices and outcomes. Consultation committees in Australia and New Zealand, Canada and EMEA also convene quarterly to discuss employee health and well-being matters. Regular communication with WHS representatives globally promotes consistency in WHS approaches.

Macquarie aims to provide its employees with a working environment that is free from discrimination and harassment. It is compulsory for all employees and contractors who have been with Macquarie for more than three months to complete appropriate workplace behaviour training. The program covers anti-discrimination and work health and safety laws, harassment and sexual harassment, Macquarie's complaints handling procedure, WHS obligations and management of WHS at Macquarie.

About these disclosures

Macquarie has used the Global Reporting Initiative as the guiding framework for sustainability disclosures contained within the Annual Financial Report and Annual Review. Consistent with Macquarie's approach to sustainability, information concerning governance, environment, social and economic performance is presented throughout the Report rather than as a separate disclosure. The content has been selected to cover issues of material interest to our stakeholders and significance to our ongoing business performance as a financial institution. Macquarie's key stakeholders are shareholders, clients, investors, counterparties, employees, regulators, analysts and communities in which it operates. A GRI index is contained on page 216.

Risk Management Report

Introduction – Macquarie's risk management framework

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

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

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

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

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

Macquarie's risk culture is well established – Macquarie recognises that an effective risk management framework involves more than just robust controls. Macquarie's risk culture, which is less tangible, is equally as important and at Macquarie the risk culture remains strong, and controls are respected by staff. Key aspects supporting this culture include:

— **Macquarie's businesses are fundamentally client based.** Therefore, across Macquarie, greater emphasis is placed on fostering long-term relationships with our clients and building franchise businesses as opposed to short-term profits from proprietary trading.

— **Consideration of worst-case scenarios is part of everyday risk controls rather than supplementary to them.** Even though the worst case scenarios are often in excess of what has been historically observed, they play a major role in influencing and limiting positions particularly for extreme loss events.

We apply limits to contingent losses from a 40 per cent gap move in stock prices. This effectively constrains trading divisions from issuing well out of the money options and encourages hedging of extreme loss events. We have over 13,000 contingent loss limits that consider a variety of worst case scenarios.

— **The role of risk management staff is one of active engagement in risk-taking decisions.** In accordance with the principle of risk ownership, the primary risk analysis and initial decisions to reject or accept a transaction are taken by Operating Groups. In its review of a new proposal, RMG provides an independent confirmation of the risk acceptance decision. RMG works closely with the deal team and shares the goal of making the transaction successful by requiring improvements to the transaction terms where applicable. Strong emphasis is placed on transferring knowledge to transaction teams so that the same risk management principles are applied to future proposals from an early stage.

— **Macquarie's remuneration policy for senior management encourages a long-term view in decision making.** It discourages excessive risk taking as incentives are aligned with the long-term profitability of the firm through retention of remuneration and equity participation. The principles behind our current remuneration structure have been in place for many years.

Risk governance structure

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

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

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

All Board members are members of the Board Risk Committee. The Board Risk Committee has responsibility for ensuring an appropriate risk management framework – including the establishment of policies for the control of risk – is in place. The Board Risk Committee receives information on the risk profile of Macquarie, breaches of the policy framework and external developments which may have some impact on the effectiveness of the risk management framework. It also approves significant changes to risk management policies and framework and approves Macquarie's risk appetite. The Board Risk Committee is assisted by the following Committees:

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

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

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

Risk Management Group

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

Independence

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

Centralised prudential management

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

Approval of all new business activities

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

Continuous assessment

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

Frequent monitoring

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

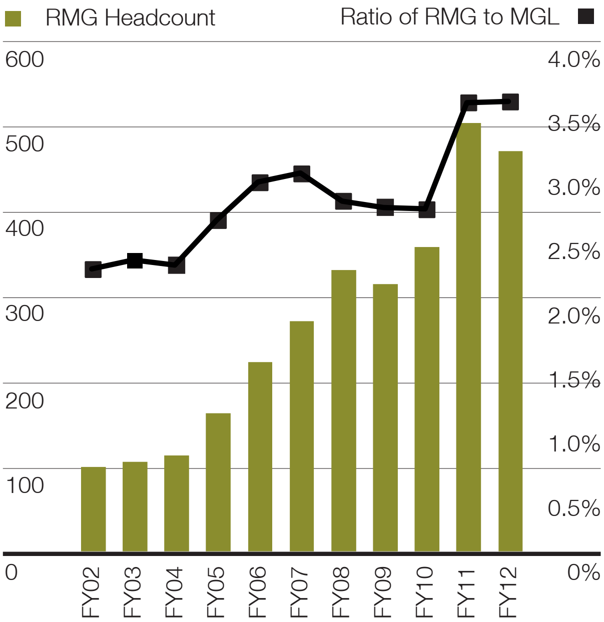
Risk Management Report
continued

RMG structure and resourcing

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

The change in staffing levels within RMG is in line with the changes in staffing overall at Macquarie. RMG staff numbers as at 31 March 2012 were 471 which is a 7 per cent decrease over the year.

Ratio of RMG headcount to total Macquarie[1]



[1] Headcount numbers only include permanent, active staff (full-time and part-time). Historical figures have not been restated to include business compliance staff who joined RMG in FY2011.

Effective risk management is not only a function of disciplined processes but also of imaginative analysis by talented individuals.

RMG attracts high calibre candidates. It recruits experienced individuals both from within Macquarie and externally and is a source of talent for Macquarie's Operating Groups when recruiting.

To ensure that, on a global basis, risks are managed in a controlled manner, 52 per cent of total RMG staff as at 31 March 2012 were based outside of Australia. All offices are subject to the same risk management controls and standards. This is supported by regular staff communication and visits to international offices.

Consistent with the concept of Operating Groups owning risk, specific day-to-day operations are more appropriately discharged and embedded within the Operating Groups. The majority of operational risk and compliance functions are therefore discharged within the Operating Groups. Business-aligned compliance staff ensure that day-to-day compliance obligations are discharged at the business level whilst Business Operational Risk Managers are appointed by the Operating Group Heads to be their representative on operational risk management matters, and act as their delegate in ensuring that operational risk and standards are addressed appropriately within their division. All business-aligned compliance staff have a reporting line to the regional Head of Compliance, and ultimately to the RMG divisional Head of Compliance; whilst divisional operational risk staff have functional reporting lines to the RMG divisional head of Operational Risk.

New business and acquisitions

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

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

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

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

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

RMG Internal Audit performs an audit of the operations of any significant new businesses based on an assessment of the associated risk faced by Macquarie. The audit typically takes place within six to 12 months following acquisition or launch and includes confirmation that operations are in line with the new product approval document.

Risk management and monitoring

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

Equity risk

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

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

Equity Risk Limit

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

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

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

Transaction review and approval process

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

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

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

Risk Management Report
continued

Credit risk

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

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

Analysis and approval of exposures

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

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

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

All credit exposures are reviewed at least once a year, or more frequently if required.

Independent analysis

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

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

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

Macquarie Group ratings

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

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

Each Macquarie rating is assigned a Probability of Default estimate. Credit limits and exposures are also allocated a Loss Given Default ratio reflecting the estimated economic loss in the event of default occurring.

All customer limits and exposures are allocated a Macquarie rating on a 1–17 scale, which broadly corresponds to Standard & Poors' and Moody's Investor Services credit ratings.

Macquarie has a Credit Assurance function within RMG which independently verifies the effectiveness of Macquarie's credit risk management.

Measuring and monitoring exposures

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

Credit exposures for derivatives are a function of potential market movements and are assessed by assuming that low probability stressed market movements occur and that Macquarie has to go to the market to replace a defaulting deal at the worst possible time during the term of the transaction. RMG Credit Analytics proposes and reviews the stresses which are applied in order to determine high confidence level counterparty exposures. These stresses are back-tested to ensure that they would have provided the required confidence level over a representative historic period. Credit stresses are determined using a combination of fundamental and technical analysis.

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

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

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

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

Loan impairment review

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

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

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

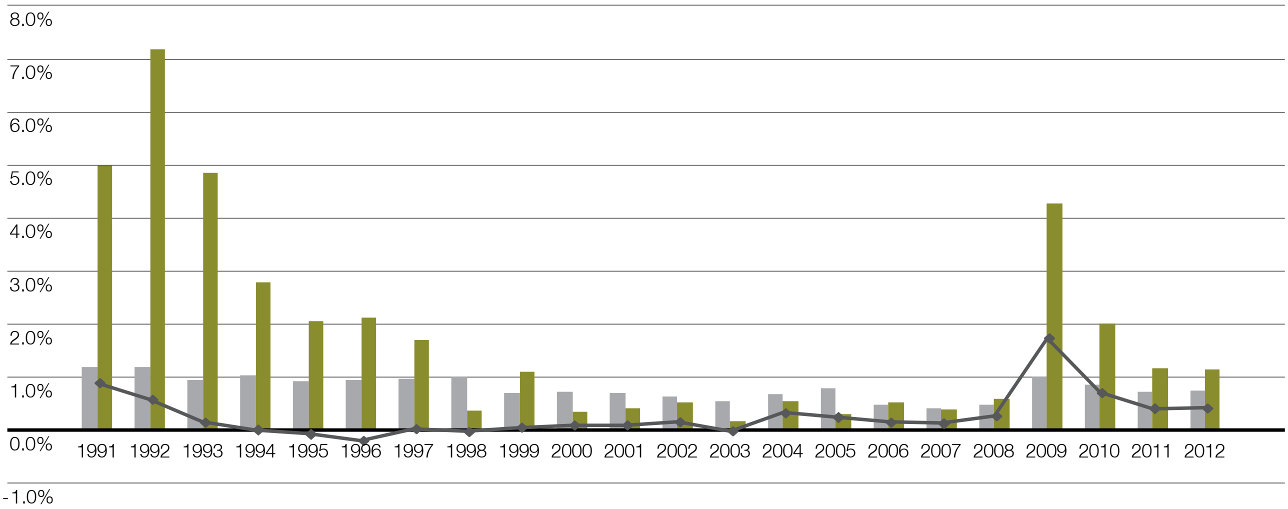
Country risk

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

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

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

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



Notes:
- Loan assets exclude securitised mortgages, securitised Macquarie Capital loans/leases, segregated future funds and receivables in the form of fees.
- Net impaired assets and net losses exclude investment securities.
- Collective provision (as per Note 12 of the Financial Report) is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable.
- Net credit losses represent total profit and loss impact in the stated period due to additional specific provisions and direct write-offs net of any write-backs.
- Please refer to Note 13 of the Financial Report for further information on impaired assets.

Risk Management Report
continued

Operational risk

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

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

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

Operational Risk Management framework

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

— risk identification, analysis and acceptance

— execution and monitoring of risk management practices

— reporting and escalation of risk information on a routine and exception basis.

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

— a robust change management process to ensure operational risks in new activities or products are identified, addressed and managed prior to implementation

— a semi-annual operational risk self assessment process to identify operational risks at the business level, assess controls and develop action plans to address deficiencies

— recording of operational risk incidents into a centralised reporting system. Incidents are analysed to identify trends and establish lessons learnt on the effectiveness of controls

— allocation of operational risk capital to all Macquarie businesses as a tool to further encourage positive behavior in Macquarie's day-to-day management of operational risk

— Macquarie-wide policies which require a consistent approach and minimum standards on specific operational risk matters

— embedded operational risk representatives in Operating Groups who act as delegates of the business manager. These representatives ensure operational risks are addressed appropriately and that the ORMF is executed within their area.

Macquarie's operational risk capital framework

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

— an annual scenario approach for modelling operational risk losses and to determine operational risk capital

— a quarterly scorecard analysis which is used to update operational risk capital between scenario analyses, and as a basis for updating the allocation of capital to businesses.

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

Over time operational risk capital changes to reflect:

— new business activity, businesses growth and significant change in activity which may require new or increased loss scenarios and/or an increased loss probability

— decreases in the probability of loss as business changes bed down and the control environment continues to mature, reducing the capital requirement

— changes in the external environment such as new regulations or movements in the economic cycle that also influence scenario estimates.

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

Market risk

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

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

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

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

Trading market risk

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

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

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

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

Aggregate measures of market risk

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

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

Risk Management Report
continued

Macro-Economic-Linkages

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

The 'Market Contagion' scenario, typically the most conservative of the MEL stress test scenarios, accounts for all the significant markets to which Macquarie is exposed. The assumptions in this scenario are considerably more severe than the conditions that have prevailed throughout the Global Financial Crisis. The 'Market Contagion' scenario measures the impact of an instantaneous equity market crash of 15 to 30 per cent as well as additional shocks to foreign exchange, metals, interest rate, energy, agricultural commodity and credit markets. Macquarie's exposure to the 'Market Contagion' stress test scenario decreased over the financial year as trading businesses de-risked in light of deteriorating market conditions resulting from macroeconomic concerns. The average exposure to the MEL stress test scenario represents less than 4 per cent of total equity.

Value-at-Risk

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

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

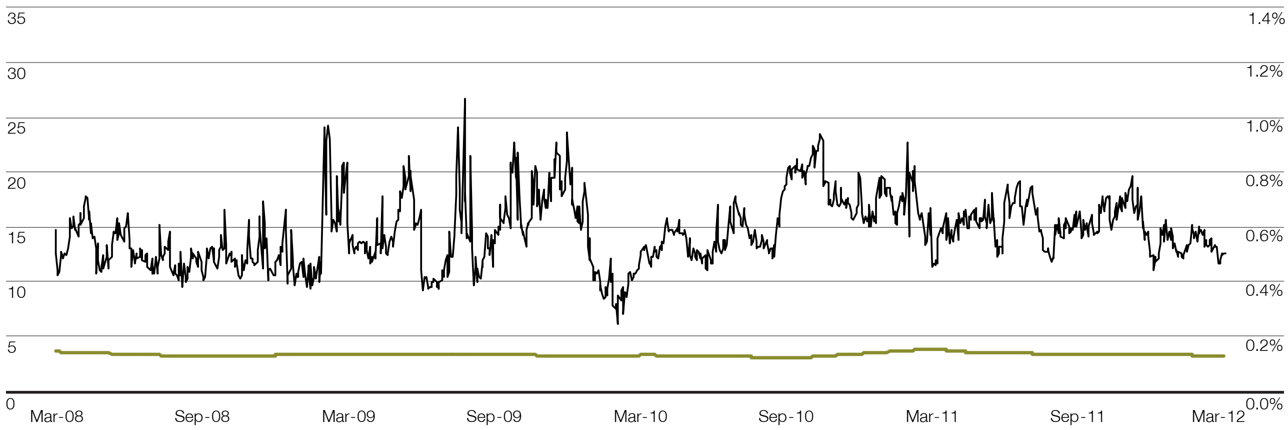
The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 1,400 benchmarks, using volatilities and correlations based on three years of historical data. Emphasis is placed on more recent market movements to more accurately reflect current conditions. Each benchmark represents an asset at a specific maturity, for example one year crude oil futures or spot gold. The benchmarks provide a high level of granularity in assessing risk, covering a range of points on yield curves and forward price curves, and distinguishing between similar but distinct assets; for example crude oil as opposed to heating oil, or gas traded in different locations. Exposures to individual equities within a national market are captured by specific risk modelling incorporated directly into the VaR model.

Macquarie's market risk, as measured by VaR, moderately decreased over the financial year as de-risking in trading businesses was partially offset by increases in market volatility. VaR remains modest in comparison to capital and earnings and continues to represent less than 0.2 per cent of total equity. The graph below shows the daily VaR and the six month average VaR as a percentage of total equity.

Aggregate VaR

VaR (1-day 99% confidence interval) – $A million

Average VaR to total equity – %



VaR figures for year ended 31 March 2012

	2012 Average $Am	2012 Maximum $Am	2012 Minimum $Am	2011 Average $Am	2011 Maximum $Am	2011 Minimum $Am
Equities	7.26	10.03	4.26	9.53	19.30	4.35
Interest rates	10.91	14.72	8.00	5.83	10.72	3.67
Foreign exchange and bullion	2.36	6.22	0.86	3.61	10.55	1.08
Commodities and energy	9.53	15.11	6.41	11.64	16.34	7.63
Aggregate	14.99	19.57	11.07	16.00	23.50	11.04

Trading revenue

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

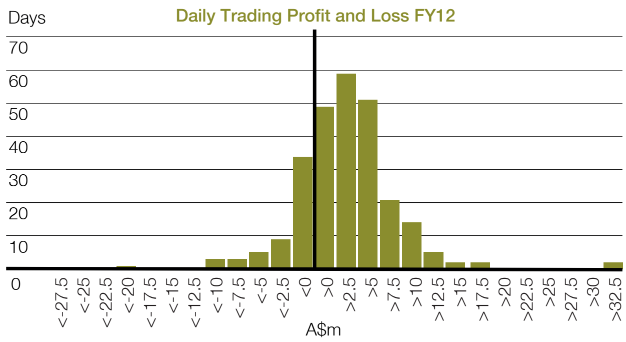
Macquarie's market risk activities continue to be based on earning income from spreads, franchise businesses and client flows. The majority of trading income is derived from client franchise activities rather than outright proprietary trading activity.

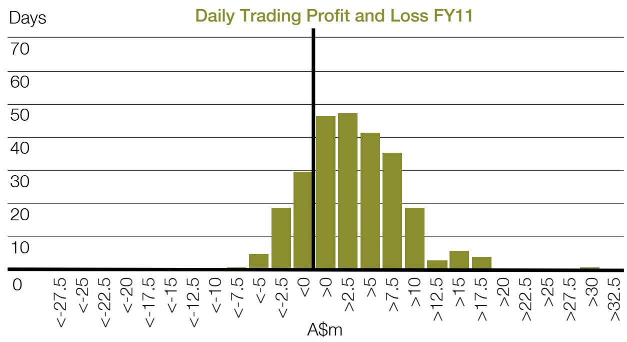
Macquarie's trading approach has shown consistent profits and low volatility in trading results over time. This is evident in the histograms below, and reflects the client-based nature of trading activities. In FY2012 Macquarie made a net trading profit on 205 out of the 260 trading days (2011 results: 206 out of 261 trading days).

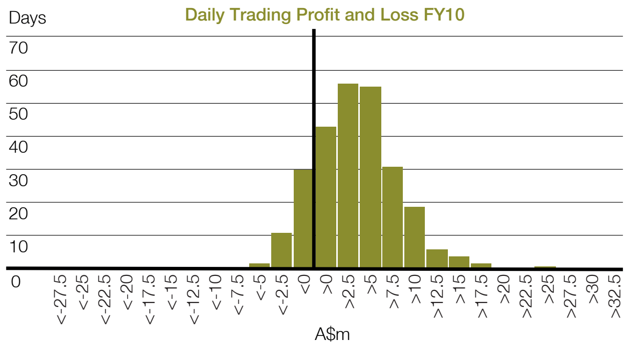
Non-traded market risk

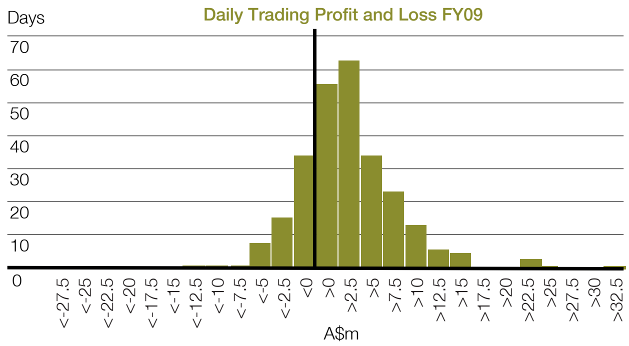
Macquarie also has exposure to non-traded interest rate risk, generated by banking products such as loans and deposits. Interest rate exposures, where possible, are transferred into the trading books of FICC and Group Treasury and managed under market risk limits. However, some residual interest rate risks remain in the banking book due to factors outside the interest rate market or due to timing differences in accumulating exposures large enough to hedge. These residual risks in the banking book are not material but are nevertheless monitored and controlled by RMG and reported to senior management regularly.

Macquarie's trading approach has shown consistent profits and low volatility in trading results over time. Trading activities generated a net profit on 205 out of the 260 trading days in the financial year to 31 March 2012.









Risk Management Report
continued

Economic capital

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

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

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

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

Capital adequacy assessment

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

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

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

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

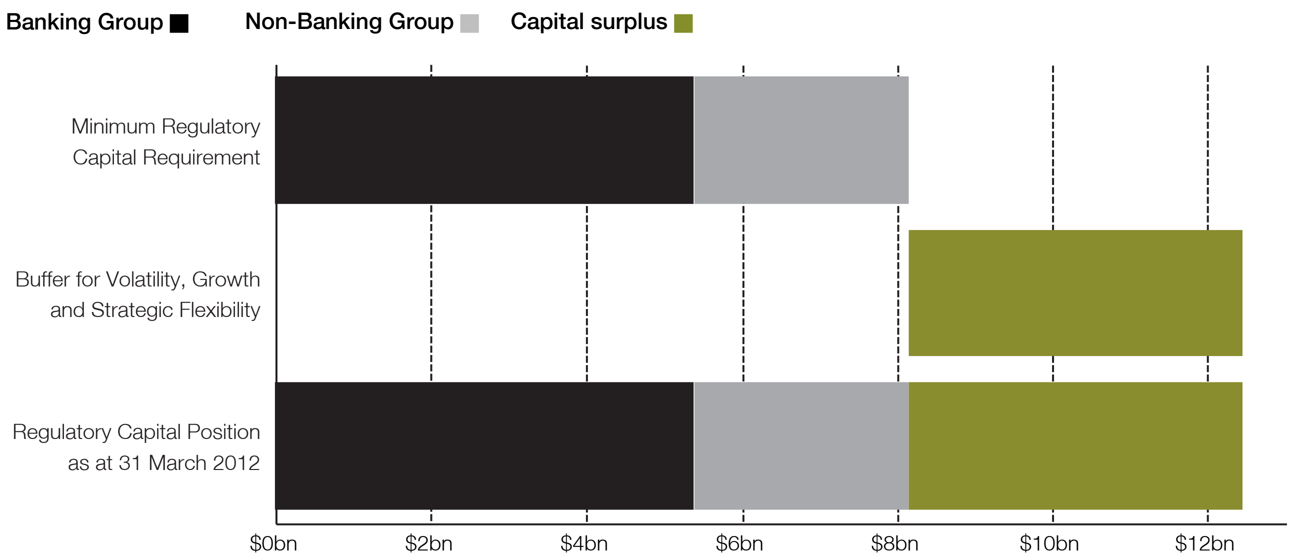
The ECAM quantifies the following types of risk:

— equity risk
— credit risk
— operational risk
— traded market risk.

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

The regulatory capital requirement of Macquarie's non-banking entities as agreed with APRA is determined by the ECAM. Macquarie's regulatory capital position as at 31 March 2012 is set out below.

Macquarie Group Limited regulatory capital position 31 March 2012



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

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

The Tier 1 and total capital ratios for the Banking Group as at 31 March 2012 were 13.8 per cent and 16.6 per cent respectively.

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

Risk appetite setting

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

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

1 Limits

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

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

2 Relevant policies

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

3 Requirement to consider risk-adjusted returns

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

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

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

The Risk Appetite Test – an aggregate stress test

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

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

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

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

Aggregate risk can be therefore broken down into two categories:

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

Risk Management Report
continued

Business risk is captured by the difference in base case and downturn forward earnings estimates. Potential losses are quantified using a version of the economic capital model.

A principal use of the Risk Appetite Test is in setting the Equity Risk Limit (ERL). This limit constrains Macquarie's aggregate level of risk arising from principal equity positions, managed fund holdings, property equity investments, lease residuals and other equity investments. Any changes to the ERL are sized to ensure that even under full utilisation of this limit, and allowing for growth in other risk types, the requirements of the Risk Appetite Test will be met.

Risk-adjusted performance measurement

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

Liquidity risk

Liquidity management

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

The high level funding relationships of Macquarie are shown below.

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

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

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

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

Liquidity policy and principles

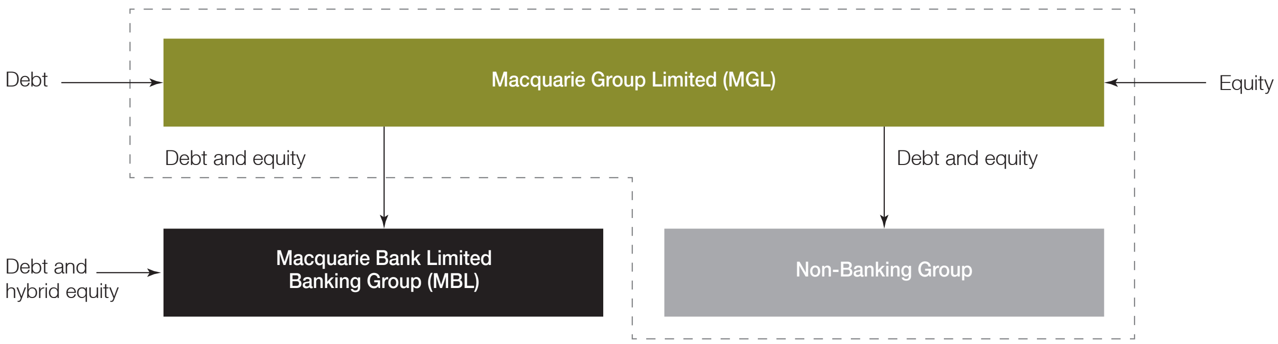
MGL provides funding predominantly to the Non-Banking Group. As such, the MGL *Liquidity Policy* outlines the liquidity requirements for the Non-Banking Group. The key requirement of the policy is that MGL is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period with no access to funding markets and with only a limited impact on franchise businesses.

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

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

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

Macquarie Group – high level funding relationships



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

Liquidity and funding management

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

Liquidity limits

- term assets must be funded by term liabilities
- cash and liquid assets are sufficient to cover a 12 month stress scenario
- cash and liquid assets held to meet stress scenarios must be unencumbered, high quality liquid assets and cash
- short-term assets exceed short-term wholesale liabilities.

Scenario analysis

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

The scenarios separately consider the requirements of the banking group, non-banking group and the consolidated group. They are run over a number of timeframes and a range of conservative assumptions are used regarding access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

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

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

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90 per cent of the liquid assets portfolio held to meet the minimum liquid asset requirement must be eligible collateral for a repurchase facility with a central bank (repo eligible). The remainder must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2012, 99 per cent of the liquid asset portfolio was repo eligible.

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

The liquid asset portfolio is largely denominated and held in Australian dollars and to a lesser extent in US dollars or other currencies where appropriate.

Liquidity contingency plan

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

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

Macquarie is a global financial institution, with bank branches, operating subsidiaries and regulated banking subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have a local contingency plan specific to that region. Where that is the case, the liquidity contingency plan contains a supplement providing the necessary region-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 Macquarie. Under this framework the costs of long and short-term funding are charged out, and credits are made to divisions that provide long-term stable funding.

Risk Management Report
continued

Regulatory and compliance risk

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

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

Legal risk

Legal risk includes the risk that:

— transactions are not capable of being enforced as expected

— business does not adequately understand the legal and regulatory framework in which it operates

— the organisation may be found to be responsible for a claim based on a breach of contract, law or regulation.

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

Reputation risk

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

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

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

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

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

Internal Audit

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

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

Basel II

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

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

[1] Standard approach applied for specific risk on debt securities.

Regulatory developments

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

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

APRA is requiring Australian banks to follow an accelerated Basel III implementation compared to the Basel Committee's gradual phase-in of Basel III, with a minimum Common Equity Tier 1 (CET1) ratio of 4.5% required by Jan 2013 and immediate phase in of additional CET1 deductions. In addition, APRA has also added more conservative overlays ('super-equivalence') to the Basel Committee's Basel III capital requirements.

Macquarie meets the APRA 2016 Basel III requirements today, i.e. minimum ratios plus capital conservation buffer. Macquarie will continue to report both the APRA Basel III capital position as well as the Harmonised Basel III position using the Basel Committee's Basel III rules.

All new transactions considered are now evaluated on a fully implemented Basel III basis, and all businesses are operating cognisant of Basel III.

Global regulators are in various stages of implementing G20 initiatives to develop regulatory infrastructure to meet the objective of central clearing and reporting of standardised, over-the-counter (OTC) derivative transactions. Through the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States and similar legislative change in many markets within which Macquarie operates, including Australia, the conduct of OTC business is undergoing significant reform. Macquarie's expectation is that much of the change will occur through 2012 and beyond, as structural change and practice permeates the industry in an endeavour to better manage the systemic risks inherent in financial businesses.

Directors' Report
for the financial year ended 31 March 2012

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (Macquarie, MGL, the Company), the Directors submit herewith the income statements and statements of cash flows for the year ended 31 March 2012 and statements of financial position as at 31 March 2012 of the Company and its subsidiaries (the Consolidated Entity) at the end of, and during, the financial year ended on that date and report as follows:

Directors

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

Independent Directors

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

Executive Director

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

Other than Ms Grady, the Voting Directors listed above each held office as a Director of Macquarie throughout the financial year ended 31 March 2012. 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] Ms Grady joined the Board on 19 May 2011.

Meeting attendance

Directors' meetings

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

Board meetings

	Monthly Board meetings (11)		Special Board meetings (5)	
	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended
H.K. McCann	11	11	5	5
N.W. Moore	11	11	5	5
D.J. Grady[1]	10	10	5	5
M.J. Hawker	11	11	5	5
P.M. Kirby	11	11	5	4
C.B. Livingstone	11	11	5	5
J.R. Niland	11	11	5	5
H.M. Nugent	11	11	5	5
P.H. Warne	11	11	5	5

Board Committee meetings

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

There were three Board Sub-Committee meetings. The first meeting was attended by all of its members, being Mr McCann, Mr Moore, Mr Warne and Mr Ward. The second meeting was attended by all of its members, being Mr McCann, Mr Moore and Ms Livingstone. The third meeting was attended by all of its members, being Mr McCann, Mr Moore, Ms Livingstone and Mr Ward.

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 Ms Grady was appointed to the Board as an Independent Voting Director effective from 19 May 2011. She joined the Board Risk Committee on 19 May 2011 and the Board Remuneration Committee on 1 August 2011.

2 Mr McCann ceased to be a member of the Board Audit Committee and Board Governance and Compliance Committee effective 1 June 2011. He joined the Board Remuneration Committee on 1 August 2011.

3 Mr Hawker joined the Board Audit Committee on 1 June 2011.

4 Mr Ward is not a Voting Director of Macquarie Group Limited. He joined the Board Risk Committee on 20 December 2011 on his appointment as Managing Director and Chief Executive Officer of Macquarie Bank Limited.

5 Mr Sheppard is not a Voting Director of Macquarie Group Limited. He retired from the Board Risk Committee on 20 December 2011 on his resignation as Managing Director and Chief Executive Officer of Macquarie Bank Limited.

Directors' Report
for the financial year ended 31 March 2012
continued

Principal activities

The principal activity of the Company during the financial year ended 31 March 2012 was to act as a non-operating holding company (NOHC) for the Consolidated Entity. The activities of the Consolidated Entity were those of a financial services provider of banking, financial, advisory, investment and funds management services. In the opinion of the Voting Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2012 and 31 March 2011, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary owners for the financial year ended 31 March 2012 was $A730 million (2011: $A956 million).

Dividends and distributions

Subsequent to year end, the Directors have announced a final ordinary dividend of $A0.75 per share unfranked ($A263 million in aggregate), in relation to the financial year ended 31 March 2012. The final ordinary dividend is payable on 2 July 2012.

On 14 December 2011, MGL paid an interim ordinary dividend of $A0.65 per share unfranked ($A224 million in aggregate) in respect of the financial year ended 31 March 2012.

On 4 July 2011, MGL paid the final dividend of $A1.00 per share unfranked ($A346 million in aggregate) in respect of the financial year ended 31 March 2011.

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

State of affairs

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

Review of operations and financial result

Profit attributable to ordinary equity holders of $A730 million for the year ended 31 March 2012 decreased 24 per cent from $A956 million in the prior year. Challenging global market conditions, in particular during the first half of the year, resulted in lower operating income compared with the prior year. The impact was partially offset through lower operating expenses resulting from factors including a number of cost initiatives undertaken during the period and lower staff profit share expense.

The second half of the year saw improved market conditions for our Fixed Income, Currencies and Commodities business, which made a strong contribution during the half and was a key driver in the 39 per cent increase in profit attributable to ordinary equity holders to $A425 million in the half-year to 31 March 2012 from $A305 million in the prior period.

Net operating income of $A6,963 million for the year ended 31 March 2012 decreased 9 per cent from $A7,665 million in the prior year. The main drivers of this change were:

— a 14 per cent decrease in fee and commission income to $A3,364 million for the year ended 31 March 2012 from $A3,891 million in the prior year with weak investor confidence and increased market volatility adversely impacting fee income from mergers, acquisition, advisory and underwriting transactions as well as a decrease in brokerage and commissions income, particularly in cash equities as a result of weaker levels of activity;

— a 25 per cent decrease in net trading income to $A1,035 million for the year ended 31 March 2012 from $A1,389 million in the prior year largely driven by continued weak product demand for retail and structured products on derivatives revenues. In the first half of the year extreme volatility in credit and financial markets, compounded by concerns over global growth, resulted in a decrease in trading income from interest rate products. The second half saw improved market conditions across the markets in which Fixed Income, Currencies and Commodities operates, which resulted in a significant increase in trading income in the half-year ended 31 March 2012 compared to the first half of the year;

— a 21 per cent increase in other net operating income and charges to $A1,123 million for the year ended 31 March 2012 from $A931 million in the prior year. The increase was due to receipt of a special distribution[1] from Sydney Airport (formerly MAp Group) of $A295 million ($A0.80 per unit) in December 2011;

— growth in net operating lease income which was largely attributable to the acquisition of 44 aircraft assets and associated leases from International Lease Finance Corporation, the full year impact of the acquisition of the remaining 62.5 per cent of Macquarie AirFinance, an aircraft leasing business with 91 aircraft assets and associated leases, in November 2010, and the acquisition of OnStream UK, a utility metering services business, in October 2011; and

— partially offsetting these were increased impairment charges and lower income from the sale of equity investments.

[1] The special distribution received in December 2011 from Sydney Airport (formerly MAp Group) refers to the cash received as part of its restructure following asset sales.

Total operating expenses of $A5,914 million for the year ended 31 March 2012 decreased 8 per cent from $A6,394 million in the prior year. The decrease was in part driven by the impact of cost management initiatives and business rationalisation activities that are primarily responsible for a 9 per cent reduction in headcount from 15,556 at 31 March 2011 to 14,202 at 31 March 2012. Operating expenses were also favourably impacted by the stronger Australian Dollar compared to the prior year.

The impact of the stronger Australian Dollar, reduced headcount and lower staff profit share expense due to lower earnings, were partially offset by increased costs associated with targeted growth in certain businesses and the costs of scaling back or exiting certain businesses. Overall this resulted in an 8 per cent decrease in employment expenses to $A3,560 million for the year ended 31 March 2012 from $A3,890 million in the prior year. The compensation ratio of 47.9 per cent for the year ended 31 March 2012 increased from 47.1 per cent in the prior year largely due to the reduction in operating income.

Income tax expense for the year ended 31 March 2012 of $A287 million increased 2 per cent from $A282 million in the prior year. The effective tax rate for the year ended 31 March 2012 was 28 per cent, up from 23 per cent in the prior year, largely due to changes in the mix and location of income.

Review of financial position

The Consolidated Entity's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained. Cash and liquid assets decreased to $A23 billion at 31 March 2012 from $A26 billion at 31 March 2011. Cash and liquid asset holdings represent approximately 27 per cent of the Consolidated Entity's net funded assets.

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

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

— the Banking Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions (using prevailing APRA ADI Prudential Standards), and

— the Non-Banking Group capital requirement, calculated using Macquarie's ECAM.

The Consolidated Entity has satisfied its regulatory capital requirements throughout the year. At 31 March 2012, the Macquarie Banking Group had a Tier 1 Capital Ratio of 13.8 per cent and a Total Capital Ratio of 16.6 per cent. The Consolidated Entity remains well capitalised with $A4.3 billion of eligible capital in excess of the minimum regulatory capital requirements.

Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2012 not otherwise disclosed in this report.

Likely developments in operations and expected outcomes

While volatility makes forecasting difficult, it is currently expected that the result for the Consolidated Entity for the year ending 31 March 2013 will be an improvement on the prior year provided market conditions for FY2013 are not worse than those experienced over the past 12 months. However, the final result will be dependent on market conditions, particularly for the capital market facing businesses which continue to experience volatility. The full year 2013 result also remains subject to a range of other challenges including the cost of a 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.

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012

Executive summary

Macquarie's remuneration system, which has progressively evolved over time, has been designed to balance risk and return. This is reflected in the remuneration system's overarching objective which seeks to align the interests of staff with those of shareholders so as to generate superior returns over time, while having due regard to risk.

During the past year, in relation to executive remuneration, governments, regulators and shareholders have increased their focus on whether risk and return is appropriately balanced. In the financial services sector, regulators and their governments seek to protect depositors' funds and ensure the stability of the financial system. Shareholders share this concern, but also expect a return on their capital appropriate to the risk involved. In other words, there is an elevated recognition among governments, regulators and shareholders of the need to balance risk and return.

Macquarie's Board of Directors (the Board) has actively assessed such issues and reached the conclusion that Macquarie's existing remuneration approach has the inbuilt resilience to respond to the issues that have been raised by governments, regulators and shareholders, although some further incremental changes are being made. They are:

— the vesting of Executive Committee Performance Share Units (PSUs) will be extended to vest in two equal tranches after years three and four. PSUs previously vested in three equal tranches after two, three and four years

— for a limited group of staff in the UK, defined as Code Staff under the Financial Services Authority (FSA) Remuneration Code (FSA Code), a greater proportion of remuneration is deferred, delivered in Macquarie shares and required to be held for a longer period. In addition, Malus[1] provisions have been expanded

— additional disclosure on past, present and future conditional remuneration has been provided for the Managing Director and Chief Executive Officer (Managing Director and CEO).

In addition, FY2012 has been a period of economic uncertainty which has seen some of Macquarie's businesses severely impacted by macroeconomic conditions, primarily the European debt crisis, the US debt downgrade and the overall risk-aversion in the market. As a result, there has been a high degree of disparity within each business' contribution to profit during the year. Macquarie's annuity style businesses have performed strongly, while some of the capital market-facing businesses have been impacted by challenging market conditions which have had an impact on client volumes and margins. Within the capital market-facing businesses, there has been a high degree of disparity in performance with some groups and teams performing well while others have operated at a loss.

Reflecting Macquarie's overall performance, total performance-based remuneration and in turn, total compensation expense, is down on the prior year, with profit share allocations being highly differentiated to reflect differences in individual and business performance.

Nonetheless, Macquarie remains committed to a **performance-based approach to remuneration**. The proportion and level of fixed remuneration for senior staff remains relatively low compared to comparable roles in other Australian corporations. The Board of Directors consider this is appropriate because it rewards performance. In 2012, fixed remuneration for Macquarie's 10 Executive Committee members comprised 13 per cent of current year awarded remuneration. The balance of their remuneration remains at risk.

Performance-based remuneration is aligned with shareholders' interests. The profit share pool is created using the twin measures of net profit after tax (NPAT) and return on equity (ROE), measures which are known to be drivers of returns to shareholders. For a given level of capital employed, total profit share rises or falls with NPAT. Macquarie's total profit share pool increases with performance and no maximum ceiling is imposed. This aligns shareholder and staff interests and provides the strongest incentive to staff to continuously strive to maximise long-term profitability. No ROE component of the profit share pool was created in FY2012. However, given the difficult market conditions experienced in FY2012 and the need to retain some key staff, the Non-Executive Directors of the Board have exercised their discretion and increased the quantum of the profit share pool. In prior years, this discretion has been exercised both upwards and downwards.

Profit share is allocated to Macquarie's businesses and, in turn, to individuals working in them, based predominantly on performance. Performance is primarily assessed based on relative contribution to profits while taking into account capital usage and risk management. This results in businesses and individuals being motivated to increase earnings and to use shareholder funds efficiently, in the context of prudent risk-taking. In addition, other qualitative measures are used to assess individual performance. In some instances, retention of staff in difficult market conditions is also considered.

In the current year, for the Managing Director and CEO of Macquarie Group and the Managing Director and CEO of Macquarie Bank, the Non-Executive Directors considered financial performance measures, performance against peers, business performance and platform growth, cost management initiatives, other strategic initiatives, prudential and compliance matters, risk management, governance, staff and human resources indicators, reputation management and monitoring and community and social responsibility matters. The Board and Management also seek to ensure that remuneration for staff whose primary

[1] Malus is an ex-poste risk adjustment to deferred unvested remuneration (as explained on page 42).

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for the financial year ended 31 March 2012
continued

role is risk and financial control, including the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO), preserves the independence of the function and maintains Macquarie's robust risk management framework.

Profit share is delivered in ways that encourage a longer-term perspective and ensures alignment with shareholders' longer-term interests and staff retention. In turn, this encourages staff to maximise profit without exposing Macquarie to risk or behaviours that jeopardise long-term profitability or reputation.

70 per cent of the Managing Director and CEO's annual gross profit share allocation is deferred and unvested. For Executive Committee members and Designated Executive Directors[1], between 50 and 70 per cent of their profit share is retained; whereas retained profit share for other Executive Directors is between 40 and 70 per cent. After PSUs are taken into account, the effective deferral rate for the Managing Director and CEO is 77 per cent.

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

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

PSUs are only allocated to the Managing Director and CEO and Executive Committee members. From 2012 onwards they will vest in two tranches after three and four years, but are exercisable only if challenging performance hurdles are met.

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

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

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

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

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

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

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

This overall approach to remuneration achieves an appropriate balance between risk and return that aligns the interests of staff and shareholders.

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

Introduction

Macquarie's remuneration system, which has progressively evolved over time, has been designed to balance risk and return. This is reflected in Macquarie's overarching objective which seeks to align the interests of staff with those of shareholders so as to generate superior returns over time, while having due regard to risk.

However, an increasingly intense ongoing dialogue is occurring among governments, regulators and shareholders about whether risk and return is appropriately balanced. In the financial services sector, regulators and their governments want to protect depositors' funds and ensure the stability of the financial system. Shareholders share this concern, but also expect a return on their capital appropriate to the risk involved. In other words, there is an elevated recognition among governments, regulators and shareholders of the need to balance risk and return.

At the same time, Macquarie's remuneration approach must be able flexibly to respond to difficult market conditions, while recognising differential performance among and within business groups.

Throughout the year, Macquarie's Board of Directors and the Board Remuneration Committee (BRC) have actively assessed whether the design of its remuneration system has the inbuilt resilience to respond to the challenges posed by governments, regulators, shareholders and market forces.

The conclusion reached is that, subject to further incremental change, the existing remuneration approach has demonstrated resilience in dealing with external pressures while allowing for the motivation and retention of key staff. To that end, this report will demonstrate that:

1. Macquarie's remuneration approach is designed to achieve an appropriate balance between risk and return that aligns the interest of staff and shareholders.
2. With only incremental change, Macquarie's remuneration approach has allowed it to meet the expectations of governments, regulators and shareholders, as well as dealing with market pressures.
3. In a difficult year, Macquarie's creditable performance relative to peers has been supported by the remuneration approach, allowing it also to motivate and retain key staff.

Each of these matters is discussed in turn.

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

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

— financial information for Macquarie relating to the years ended 31 March 2006 through to 31 March 2012 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial information has also been prepared in accordance with and complies with IFRS as issued by the IASB

— financial information for Macquarie relating to the year ended 31 March 2005 has been restated to comply with revised Australian Accounting Standards, with the exception of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005.

— financial information for Macquarie relating to earlier periods has not been restated, and is, therefore, presented in accordance with the Australian Accounting Standards prevailing at the time.

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1 Macquarie's remuneration approach is designed to achieve an appropriate balance between risk and return that aligns the interest of staff and shareholders

1.1 Macquarie's remuneration framework remains the same overall

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

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

— emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk

— linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital

— using equity to create alignment with shareholder interests

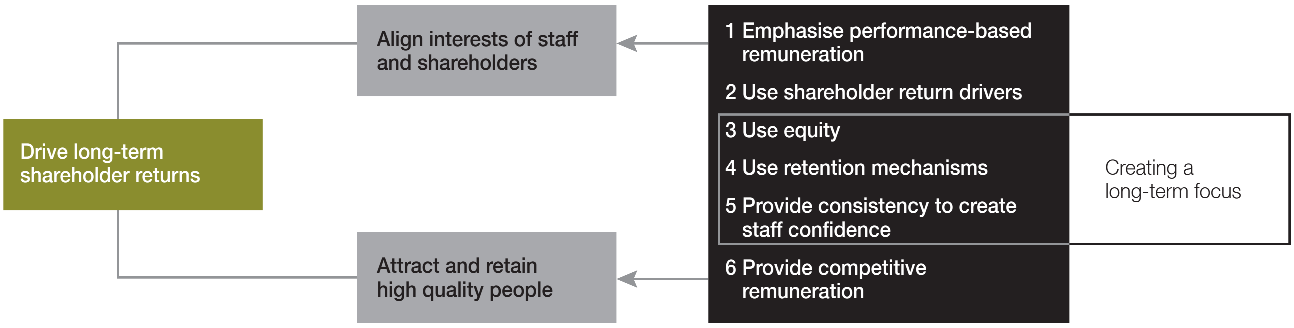
— designing retention mechanisms to encourage a long-term perspective and hence alignment with shareholders

— using consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded

— ensuring arrangements are competitive on a global basis with Macquarie's international peers.

The following diagram summarises Macquarie's remuneration framework and shows how the remuneration arrangements reflect the underlying principles:

Key elements of the remuneration framework



1.2 Risk is incorporated into the remuneration process

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. Such alignment occurs at Group, business and individual levels, according to an approach and set of principles which are overlaid with the exercise of judgement.

Group

— The size of the overall profit share pool is determined annually with reference to Macquarie's after-tax profit and its earnings over and above the estimated cost of capital. A portion of Macquarie's profit earned accrues to the profit share pool. Once the cost of equity capital is met, an additional portion of excess profit is accrued to the profit share pool.

Business

— The profit share pool is allocated to businesses based on performance, primarily, but not exclusively, reflecting relative contributions to profit (not revenue) while taking into account economic and prudential capital usage.

— When assessing the performance of businesses, Management and the BRC look at a range of factors, including risk management, governance and compliance, the relationship between profitability and risk (as measured by economic capital usage by business), losses by divisions and by risk type and the contingent risks associated with large transactions concluded during the current financial year.

Individual

- Profit share is allocated to individuals based on performance. Performance criteria vary according to an individual's role.
- When assessing the performance of individuals, Management and the BRC look at a range of factors, including capital usage (of the individual's division), information on significant losses and compliance breaches at an individual level, governance, people leadership, and upholding Macquarie's *Goals and Values*.
- More specifically, in the case of the Managing Director and CEOs of the Group and the Bank, the Non-Executive Directors take into account financial performance measures, performance against peers, business performance and platform growth, cost management initiatives, other strategic initiatives, prudential, risk and compliance management, staff and human resources indicators, reputation management and community and social responsibility matters.
- In relation to the CRO and the CFO and other risk and financial control staff, the Board of Directors seeks to ensure that the remuneration system and outcomes maintain the independence of the function and Macquarie's robust risk management framework.

In making an assessment as to whether to exercise judgement in relation to the allocation of remuneration at a Group, business or individual level, the Non-Executive Directors of the Board take into consideration the short and long-term interests of shareholders, risk considerations, the employment environment, and the need to retain staff in difficult market conditions.
In making such decisions, the BRC is assisted by reports it receives from the CRO and CFO. The Global Head of Human Resources (HR) reports to the BRC on the link between risk outcomes (as reported by the CRO) and individual remuneration recommendations. The BRC uses this information when considering the profit share allocated to individual businesses and to the individuals that it considers.

The Non-Executive Directors of the Board have exercised their discretion this year to increase the size of the pool (in other years discretion has been exercised both up and down). Such funds have been used to allocate a level of profit share to businesses experiencing difficult market conditions, and to provide an allocation to some individuals within businesses experiencing such conditions. The outcome is a highly differentiated distribution of profit share across and within businesses. The Non-Executive Directors take the view that such an approach is in shareholders' long-term interest, allowing Macquarie to reward specific contributions made within businesses and to retain key staff in some areas facing extreme market pressures. Notwithstanding these exceptions, Macquarie nonetheless remains committed to its overall approach of pay for performance.

In addition, remuneration is structured and delivered in such a way that ensures there is alignment with risk in the following ways:

- a significant portion of profit share is retained and deferred over a long period
- a significant portion of performance-based remuneration is delivered in equity, aligning the interests of staff and shareholders
- from 2012, the Board has discretion to apply Malus
- a departing executive's unvested profit share is forfeited except where it is a genuine retirement, redundancy or another limited exceptional circumstance and is forfeited if certain events occur over a two year period
- one of the performance hurdles for Performance Share Units (PSUs) is linked to ROE, which takes into account the use of capital.

1.3 Macquarie's remuneration system is structured to balance risk and return

This section provides a more comprehensive overview of Macquarie's remuneration arrangements and demonstrates the balance between risk and reward. Macquarie adopts a tailored approach to ensure that retention levels and equity-based remuneration is appropriate given the role of the individual and their ability to influence results.

Directors' Report – Remuneration Report
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1.3.1 Key features of the remuneration system

Key area	Executive Committee[1] and Designated Executive Directors	Other Executive Directors	Staff other than Executive Directors
Amount of profit share retained	A minimum of 50 per cent up to a maximum of 70 per cent (70 per cent for the Macquarie Group Managing Director and CEO, 50 per cent for the Macquarie Bank Managing Director and CEO)	A minimum of 40 per cent up to a maximum of 70 per cent	A minimum of 25 per cent up to a maximum of 70 per cent dependent on certain thresholds
How retained profit share is invested **(Refer 1.3.2)**	Invested in a combination of Macquarie shares and notionally invested in Macquarie-managed fund equity Investment mix will vary depending on an individual's role	Invested in a combination of Macquarie shares and notionally invested in Macquarie-managed fund equity Investment mix will vary depending on an individual's role	Invested in Macquarie shares[2]
Vesting and release of retained profit share	All retained amounts vest and are released from three to seven years after the year retained (see also forfeiture below)	All retained amounts vest and are released from three to five years after the year retained (see also forfeiture below)	All retained amounts vest and are released from two to four years after the year retained
Forfeiture of retained profit share whilst employed **(Refer 1.3.3)**	Board discretion to apply Malus in certain circumstances	Board discretion to apply Malus to certain Executive Directors, as identified by the BRC	Board discretion to apply Malus to certain staff, as identified by the BRC
Forfeiture of retained profit share on leaving **(Refer 1.3.4-1.3.5)**	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a 'disqualifying event' occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a 'disqualifying event' occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances
PSUs **(Refer 1.3.6)**	Granted to Executive Committee members only, which will vest after years three and four subject to achievement of performance hurdles	n/a	n/a
Minimum Shareholding Requirement	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last 10 years (five years for Designated Executive Directors) in Macquarie shares (which can be satisfied by the requirements of the profit share retention policy)	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last five years in Macquarie shares (which can be satisfied by the requirements of the profit share retention policy)	n/a

[1] Includes both the Managing Director and CEO of Macquarie and the Managing Director and CEO of Macquarie Bank.

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

Additional detail is set out in the following sections in regard to certain remuneration arrangements as referenced above.

1.3.2 *Investment of retained profit share*

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

For most other staff, retained profit share is invested in Macquarie shares under the MEREP. The following table shows the current percentage allocation of retained profit share that is invested in the Post-2009 DPS Plan and the MEREP, depending on the staff member's role:

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

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

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, 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). A Restricted Share comprises a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules; 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.

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.

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

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1.3.3 Forfeiture of retained unvested profit share whilst employed – Malus

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

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

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

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

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

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

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations, including for FSA Code Staff under the FSA Code.

1.3.4 Early vesting and release of retained profit share

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

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

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

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

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

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

Under the current remuneration arrangements, in the year to 31 March 2012, discretion has been exercised in relation to two executives for the following reasons:

— ill health
— business efficacy.

1.3.5 Disqualifying events

On leaving Macquarie, an Executive Director will not be entitled to receive any of their unvested Transitioned Amounts[1] or retained profit share from 2009 and future years if the Board, the BRC or the Executive Committee under delegation from the BRC, determines, in its absolute discretion, that the Executive Director has during the period of employment with Macquarie or since leaving:

(a) committed an act of dishonesty (including but not limited to misappropriation of funds and deliberate concealment of a transaction)

(b) committed a significant and wilful breach of duty that causes material damage to Macquarie

(c) joined a competitor of Macquarie Group

(d) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or

(e) otherwise acted, or failed to act, in a way that damages Macquarie, including but not limited to situations, where the action or inaction leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

If an Executive Director leaves Macquarie and the discretion to release unvested retained amounts is exercised as described in section 1.3.4 'Early vesting and release of retained profit share', the release will occur over the period from six months to two years after the Executive Director leaves. Different disqualifying event provisions will apply at the six month, one year and two year timeframes as follows:

— retained profit share from all but the last two years – released on the expiry of six months following the end of employment (the 'First Period') provided the Executive Committee has determined that none of the disqualifying events (a), (b), (c), (d) and (e) set out above occurred during the First Period

— retained profit share from the second year prior to the end of employment – released on the expiry of a further six months following the end of the First Period (the 'Second Period') provided the Executive Committee has determined that no disqualifying event occurred during the First Period and disqualifying events (a), (b), (d) and (e) set out above have not occurred during the Second Period

— retained profit share from the year prior to the end of employment – released on the expiry of a further 12 months following the end of the Second Period (the 'Third Period') provided the Executive Committee has determined that no disqualifying event occurred during the First Period, disqualifying events (a), (b), (d) and (e) set out above have not occurred during the Second Period and disqualifying events (a), (b) and (e) set out above have not occurred during the Third Period.

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

1.3.6 Performance share units (PSUs)

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

Unlike options, there is no exercise price for PSUs.

Determination and allocation of the PSUs

The Board approves the number of PSUs to be allocated to Executive Committee members each year as part of the annual remuneration review process. This determination has regard to Macquarie's overall performance, the extent to which the Executive Committee members have fulfilled their roles, and the long-term value delivered to shareholders. The allocation to individual executives is broadly in the same manner as annual profit share allocations i.e. it is performance based. The allocation of PSUs to the Managing Director and CEO, who is an Executive Voting Director, is subject to shareholder approval at the Annual General Meeting.

Vesting schedule

In the past, PSUs have vested in three equal tranches after two, three and four years from the deemed vesting commencement date (typically 1 July in the year of grant), giving an average vesting period of three years. For grants in respect of the 2012 performance year, PSUs will vest in two equal tranches after years three and four.

As a general rule, unvested PSUs will lapse on termination. However, the Board or the BRC has the authority to accelerate the vesting of PSUs. The Board or the BRC may consider exercising this authority where, for example, a staff member dies, is totally and permanently disabled, gives notice of their intention to enter into genuine retirement or a staff member's employment ends on the grounds of redundancy, illness or in other limited exceptional circumstances, such as hardship or where business efficacy justifies exercising the discretion. To date, the discretion to accelerate vesting has not been exercised.

Performance hurdles

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

The BRC periodically reviews the performance hurdles, including the reference group, and has discretion to change the performance hurdles in line with regulatory and remuneration trends. No change has been made to the performance hurdles for the past year. The section below describes these hurdles and their rationale.

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Description of performance hurdles

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

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

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

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

Rationale for selection of performance hurdles

- ROE and EPS are considered appropriate measures of performance as they are regarded as the drivers of longer-term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool.
- EPS provides closer alignment with shareholders who are concerned about this measure and it is particularly appropriate for the Executive Committee who are at a level within Macquarie where they can affect its achievement. Total Shareholder Return (TSR), on the other hand 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, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff.
- The use of a sliding scale diversifies the risk of not achieving the hurdle for executives, provides rewards proportional to performance for shareholders and replaces the all-or-nothing test which some have argued could, in the current climate, promote excessive risk taking. Sliding scales are also more widely used and supported by governance agencies.
- Use of a reference group of significant Australian financial companies and international peers provides an appropriate reference. This also recognises that, following the significant changes in global financial markets, regulated financial institutions will likely face increased regulatory requirements, which other companies will not. The inclusion of international peers recognises the extent of Macquarie's internationalisation and its identified peer group. At 31 March 2012, over half of Macquarie's income and over half of Macquarie's staff were offshore. Also, international ownership of Macquarie's shares remains significant with non-Australian ownership averaging approximately 33 per cent over the three years to 31 March 2012.
- The approach is consistent with that advocated by APRA in not using TSR as a measure.

Performance level required to meet hurdles

- Being three and four year average measures, from 2012, aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well insulated from short-term fluctuations.
- PSUs linked to the ROE hurdle can only be exercised if the mid-point of peers' performance has been exceeded and 100 per cent exercisability is only achieved if the 75^{th} percentile has been reached.
- The use of an absolute EPS hurdle requires Macquarie to deliver increased business results before awards are exercisable, lessening the chance that awards could be execised when results are negative as with the use of a relative measure.
- The chosen EPS CAGR hurdle is considered appropriate having regard to a range of factors including historical average market EPS CAGR figures. The table below shows the five year historical mean and 75th percentile EPS CAGRs for some relevant market sectors.

5 year EPS CAGR (per cent per annum)[1]

	S&P/ASX 100 ex Resources	S&P/ASX Banks	S&P/ASX Financials ex Property Trusts	MSCI Financials
Mean	4.87	5.33	1.89	(2.99)
75th percentile	14.05	8.46	8.46	6.58

1 Data provided by Macquarie Research Equities as at 31 March 2012. MSCI refers to the MSCI All Countries World Index.

Macquarie's EPS CAGR over the same five year period was (18.7) per cent per annum and since listing in 1996 has been 8.0 per cent per annum.

The PSUs which vested in July 2011 comprised the first tranche of those granted in 2009. They did not all become exercisable due to the performance hurdles not being fully met. Macquarie's EPS CAGR for the vesting period of the PSUs was (4.48) per cent with a minimum EPS CAGR required for vesting of 9 per cent. Macquarie's average ROE over the vesting period was 9.6 per cent, placing Macquarie at the 54th percentile ranking compared to the ROE of the relevant group of banking peers. As a result:

- of the 50 per cent subject to the EPS CAGR hurdle, 100 per cent of the units failed to become exercisable
- of the 50 per cent subject to the ROE hurdle, 56 per cent became exercisable.

PSUs that did not meet performance hurdles expired.

Similarly, Executive Committee options which vested during the year did not become exercisable as the performance hurdles were not met. The performance hurdles are only tested once.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

2 With only incremental change, Macquarie's remuneration approach has allowed it to meet the expectations of governments, regulators and shareholders, as well as dealing with market pressures

The design of remuneration systems continues to be the subject of increasingly intense ongoing debate among governments, regulators and shareholders. The specific approach and pace of change varies by country, posing particular challenges for an organisation such as Macquarie that operates in over 28 countries. The BRC seeks to ensure that its remuneration policies continue to meet the expectations of governments, regulators and shareholders. The following table summarises the key emerging themes and Macquarie's response:

Key theme	Macquarie current practice	Incremental change
Strong governance processes	— BRC comprises Independent Non-Executive Directors — Board approves the global remuneration policy — On the recommendation of the BRC, the Board individually approves remuneration for the Executive Committee, Designated Executive Directors, FSA Code Staff[1], senior risk and financial control staff	— No change
Hedging of remuneration delivered as equity	— No hedging of unvested equity remuneration	— No change
More performance-based remuneration delivered in equity	— Invested in a combination of Macquarie shares and Macquarie-managed fund equity, notionally invested	— More remuneration is delivered in Macquarie shares for a limited group of people in the UK defined as FSA Code Staff under the FSA Code (to comply with the FSA Code)
Longer deferral period	— Deferred amounts vest over a period of up to seven years, longest in ASX30 and peers	— Executive Committee PSU vesting to extend to 3-4 years — For FSA Code Staff, the holding period has been extended (to comply with the FSA Code)
Higher proportion of performance-based remuneration deferred	— Up to 70 per cent, highest in ASX30 and consistent with peers, when deferral period is taken into account	— More remuneration is deferred for FSA Code Staff (to comply with the FSA Code)
Clawback/Malus	— Malus introduced from 2012	— Australian government clawback legislation due second half 2012
Dividends on unvested shares	— Dividends are not paid on PSUs — Shareholders approved payment of dividends on RSUs and dividend equivalent payments on DSUs for regulatory reasons at the 2009 General Meeting — For regulatory reasons relating to employee share plans, it is a condition of ASIC's prospectus disclosure relief that dividends be paid on RSUs delivered though a trust. Also, for trust taxation reasons, there are adverse tax consequences if the dividends are not paid	— No change
Linkage of TSR as a performance criteria	— TSR is not used as a performance criteria — Shareholder value is driven by ROE and NPAT. These are factors over which executives can exercise considerable control. TSR is influenced by many external factors over which executives have limited control — Use of TSR is contrary to APRA guidelines	— No change

[1] FSA Code Staff include:
- UK senior management
- risk takers, or those staff who have a material impact on the risk profile of the UK businesses
- staff, whose total remuneration takes them into the same bracket as senior management and risk takers, whose professional activities could have a material impact on a firm's risk profile.

Key theme	Macquarie current practice	Incremental change
Disclosure	— Compliant with the requirements for the Remuneration Report — Compliant with APRA and FSA requirements	— First FSA disclosures completed during FY2012 — Awaiting Pillar 3 (APRA) — Early adoption in 2012 Remuneration Report of additional disclosure for the Managing Director and CEO of past, present and future conditional remuneration
Shareholder 'Say on Pay' / 2 strikes	— 98.22 per cent vote in favour of the Remuneration Report at 2011 AGM	— No change
Termination benefits	— Shareholder approval for remuneration arrangements	— No change

In addition to the external pressures set out above, difficult market conditions have also tested Macquarie's remuneration system during the year. FY2012 has been a period of economic uncertainty which has seen some of Macquarie's businesses severely impacted by macroeconomic conditions, primarily the European debt crisis, the US debt downgrade and the overall risk-aversion in the market. As a result there has been a high degree of disparity within each business' contribution to profit during the year. Macquarie's annuity style businesses have performed strongly, whilst some of the capital market-facing businesses have been impacted by challenging market conditions which have had an impact on client volumes and margins. Within the capital market-facing businesses, there has again been a high degree of disparity in performance where some groups and teams have performed well compared to others.

Macquarie's remuneration framework (including the exercise of some degree of discretion) has responded effectively to both the overall decline in performance and the differential business performance, with total performance-based remuneration being down on the prior year, and with profit share allocations being highly differentiated by individual contribution and results.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

3 In a difficult year, Macquarie's creditable performance relative to peers has been supported by the remuneration approach, allowing it also to motivate and retain key staff

The difficult market conditions discussed in the previous section have impacted Macquarie's overall result with NPAT down 24 per cent compared to the prior year.

Performance over past ten years FY2003–2012

Years ended 31 March	FY12	FY11	FY10	FY09	FY08	FY07	FY06	FY05	FY04	FY03	% change 2003 -2012
Income statement											
NPAT attributable to ordinary owners ($A million)	**730**	956	1,050	871	1,803	1,463	916	812	494	333	119
Basic earnings per share (cents per share)	**210.1**	282.5	320.2	309.6	670.6	591.6	400.3	369.6	233.0	164.8	27
ROE											
Return on average ordinary shareholders' funds (% pa)	**6.8**	8.8	10.1	9.9	23.7	28.1	26.0	29.8	22.3	18.0	
Total shareholder returns (TSR)											
Dividend – Interim and Final (cents per share)	**140**	186	186	185	345	315	215	161	122	93	
Dividend – Special (cents per share)	**-**	-	-	-	-	-	-	40	-	50	
Share price at 31 March ($A)	**29.08**	36.60	47.25	27.05	52.82	82.75	64.68	48.03	35.80	24.70	18
Annual TSR[1] (%)	**(16.0)**	(19.0)	79.6	(44.1)	(33.6)	32.6	40.2	39.0	52.8	(23.1)	
10 Year TSR (%)											38

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

Performance has been creditable relative to peers

Whilst Macquarie's overall result is down on the prior year, Macquarie's performance is broadly in line with peers.

The same global investment banking peer group as last year has been used throughout the Remuneration Report. In alphabetical order they are: Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Merrill Lynch (a subsidiary of Bank of America), Morgan Stanley and UBS. Peers are only excluded from the analysis below where relevant information is not available. Applicable peers are set out below under each piece of analysis. The BRC considers these firms to be appropriate peers on the basis that they broadly operate in the same markets and compete for the same people as Macquarie. Nonetheless, comparisons are complicated for the following reasons:

- each peer has a different business mix. Some peers are or have become parts of larger organisations, often with large retail operations which can distort comparisons
- where peer information is published, comparative information may not include a share of central overhead costs such as support functions
- the level and detail of disclosure differs amongst peers. Segment data is particularly relevant where the investment banking segment is part of a larger organisation
- variations in accounting practices used by comparator organisations. For example, some peers report net revenue on a 'pre-impairment' basis, whereas others include impairments in net revenue, as does Macquarie
- this year some firms incurred significant Debt Valuation Adjustments (DVA) which have had material impact on these firms' NPAT. DVA represents the accounting gains/(losses) from the change in fair value of a firm's long-term and short-term debt stemming from fluctuations in the firm's own credit spreads and other credit factors
- peers located in different jurisdictions report in different currencies and comparisons do not always factor in changes in foreign exchange rates
- remuneration delivered as deferred equity is amortised over the vesting period of the equity. Different deferral levels and different vesting periods, therefore, result in different accounting results, even if the underlying quantum of remuneration is the same.

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

Macquarie's change in NPAT relative to peers is in the middle of the range

One of the measures used to compare relative performance is NPAT. The NPAT 10 year CAGR is shown in both local currency and a common currency (US Dollars) to reduce the impact of significant changes in foreign exchange rates over the period when comparing the performance of firms from different jurisdictions. When looking at base currency, the analysis below shows that Macquarie's change in NPAT is in the middle of the range relative to its international peers in respect of NPAT both over a one year and 10 year period. However, the effect of using a common currency (US Dollars) shows that Macquarie's change in NPAT over a 10 year period is in the upper range of peers.

Peer relative growth in NPAT: FY2002-2012

	1 year CAGR	10 year CAGR[1]	1 year CAGR	10 year CAGR[1]
	Base Currency %	Base Currency %	$US %	$US %
Macquarie	(24)	11	(23)	19
Peer	(16)	2	(16)	3
Peer	(62)	2	(62)	8
Peer	79	38	73	43
Peer	(67)	1	(67)	1
Peer	17	17	17	17
Peer	11	27	11	27
Peer	0	n/a	0	n/a
Peer	(148)	n/a	(148)	n/a
Peer	(42)	(5)	(42)	(5)
Peer	(45)	(2)	(45)	4

[1] CAGR over the most recent 10 years. Where 10 years of continuous data is not available for a peer, or where the peer recorded a loss either 10 years ago or in the current year, a 'n/a' is noted. Peers are disclosed under the next chart.

Source: Peer underlying data from Annual Reports

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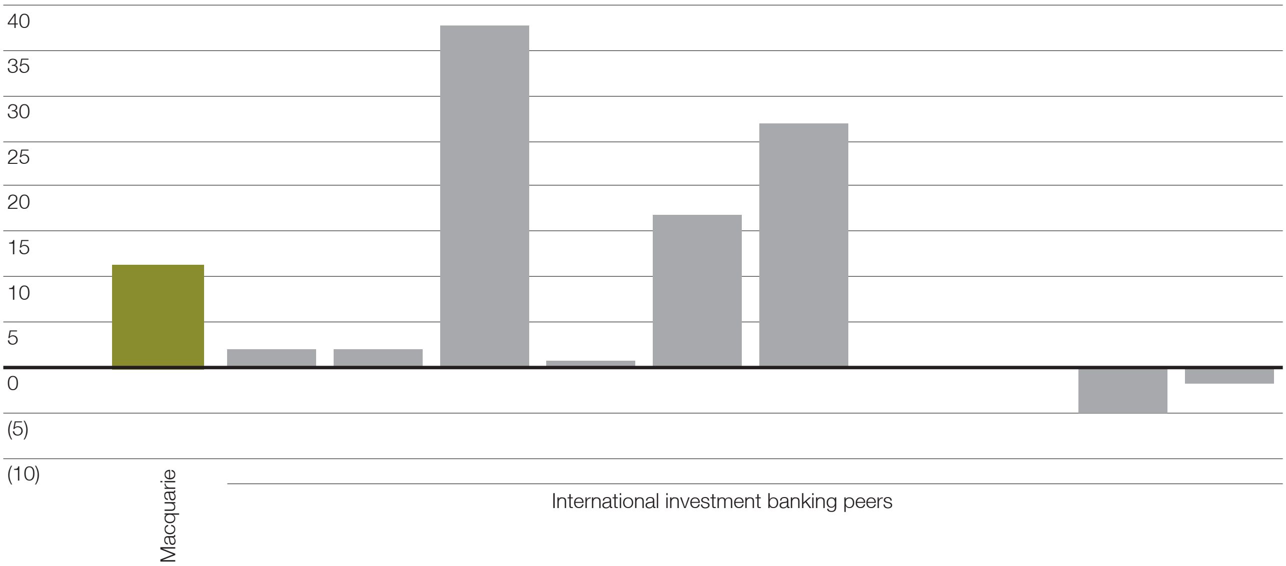
NPAT 10 year CAGR (Base Currency)
Macquarie versus international investment banking peers[1] (%)



ROE is historically low but creditable relative to peers

ROE remains at a low level compared to prior years, reflecting the weaker performance of some of Macquarie's capital market-facing businesses as well as the Group's approach over recent years to maintaining a conservative balance sheet. This has had adverse remuneration consequences because the cost of equity capital has not been met and, therefore, no amount of excess profit over and above the cost of equity capital has accrued to the profit share pool. However, Macquarie's 10 year average ROE is higher than all of its peers, reflecting a lower level of volatility over the same period.

Peers' NPAT, and therefore ROE amounts, have been impacted in some instances during the past year by a change in the fair value of a firm's long and short-term debt which is reflected as an accounting movement (see footnote 2 page 57 for more information). When compared on this basis, Macquarie's current year ROE is above the peer average[2].

[1] Peers comprise Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Merrill Lynch (Bank of America subsidiary), Morgan Stanley and UBS. The compound 10 year annual growth rate cannot be calculated where the peer has not continuously reported results over 10 years, ie Lazard, or where the peer recorded a loss either 10 years ago or in the current year.

[2] The peer average has been calculated using the ROE (excluding DVA) and expressed as a weighted average, with the weightings based on the market capitalisation of the peers as at 31 December 2011.

Peer ROE over 10 years FY2003–2012[1]
Macquarie versus international investment banking peers

	1 year adjusted for DVA[2] %	1 year average %	3 year average %	5 year average %	10 year average %
Macquarie	6.8	6.8	8.6	11.9	18.4
Average of Peers	6.0[3]	9.0	9.2	5.9	10.5
Peer	2.1	5.6	12.0	14.2	16.9
Peer	3.1	5.7	12.6	6.8	8.1
Peer	7.5	8.1	9.4	7.1	8.2
Peer	3.0	3.6	12.3	14.6	17.3
Peer	8.8	10.0	11.3	0.9	7.5
Peer	9.4	10.2	8.6	8.5	8.9
Peer	25.3	25.3	5.7	n/a	n/a
Peer	(1.3)	3.8	4.5	5.7	11.6
Peer	5.5	8.3	6.0	(11.1)	5.5

1 Peer ROE is included where this information is publicly available. Where sufficient continuous data is not available for a peer, 'n/a' is noted.

2 The reported ROE has been adjusted, where appropriate, for the effect of Debt Valuation Adjustments (DVA). DVA represent the accounting gains/(losses) from the change in fair value of a firm's long-term and short-term debt stemming from fluctuations in the firm's own credit spreads and other credit factors. In calculating the ROE post DVA, reported NPAT has been adjusted for the post tax impact of the DVA and has been expressed as a return on period end ordinary shareholders' equity. The adjusted ROE has been calculated by Macquarie based on publicly available information for the peer firms.

3 The peer average has been calculated using the ROE (excluding DVA) and expressed as a weighted average, with the weightings based on the market capitalisation of the peers as at 31 December 2011.

Peers comprise Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Morgan Stanley and UBS. Merrill Lynch has been excluded as it is part of Bank of America and its ROE cannot be ascertained.

Source: Peer underlying data from Bloomberg and Annual Reports.

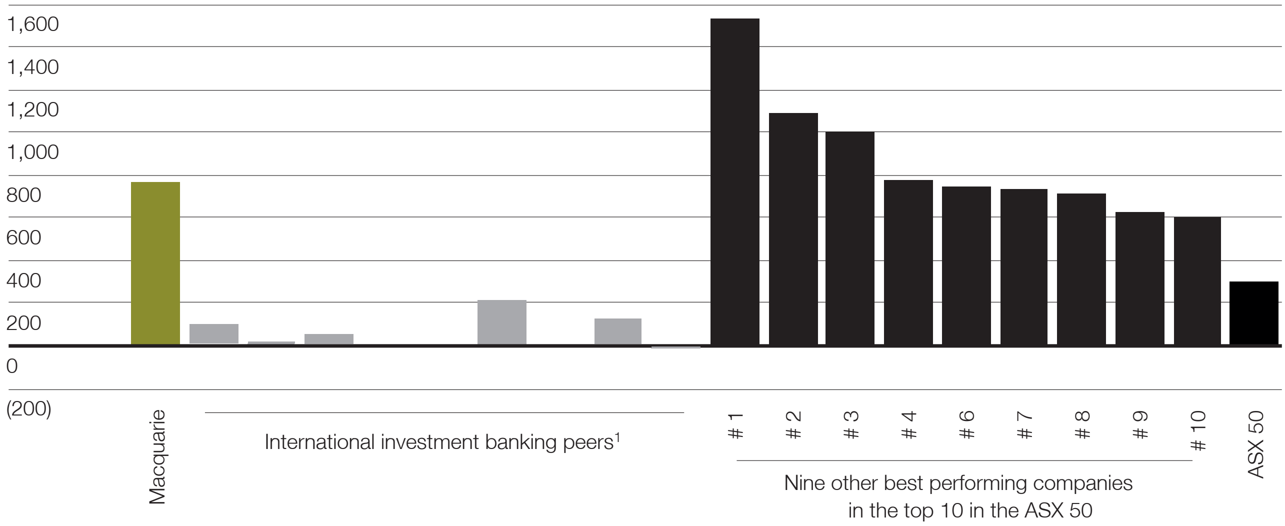
10 year ROE
Macquarie versus international investment banking peers (%)

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

TSR compares favourably to peers

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

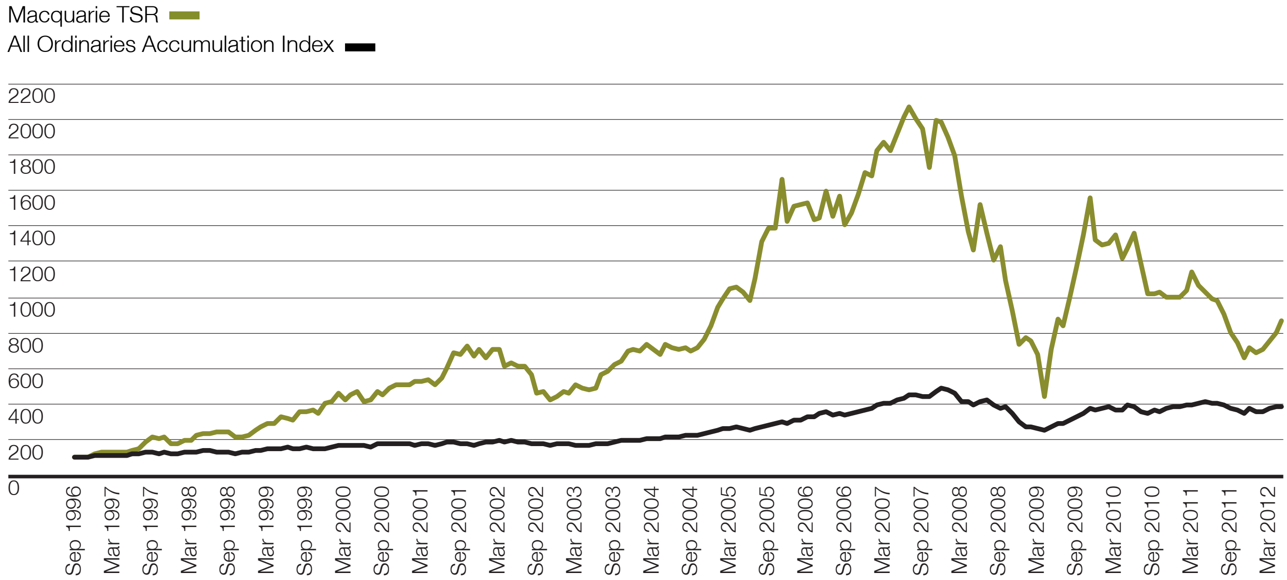
TSR since July 1996
Macquarie Group Limited, international investment banking peers, other top performing ASX 50 companies (%)



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

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

Macquarie TSR versus the All Ordinaries Accumulation Index
29 July 1996 to 31 March 2012



Note: Indexed to 100 on 29 July 1996.

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

Compensation expense to income ratio is in line with peers

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

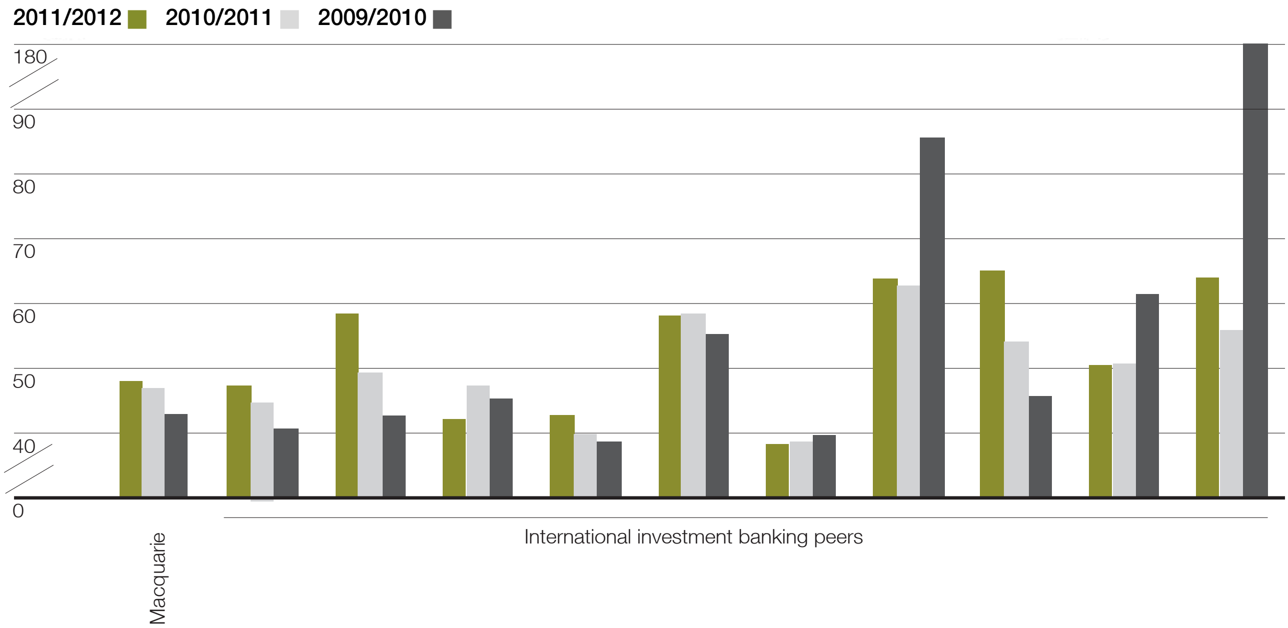
Macquarie's compensation ratio is compared with that of a group of peers in the following chart. Information has been provided for the past three years. While the compensation ratio effectively adjusts for differences in size between organisations, it is not an entirely satisfactory measure to use in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

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

In addition, the compensation ratio is affected by the denominator, being revenue as well as by the level of compensation expense. In 2012, Macquarie's revenue fell disproportionately to overall compensation which increased the compensation ratio. However, fixed remuneration, by its nature, limits the ability of the cost base to respond to changes in business conditions.

Notwithstanding these issues, to the extent that the compensation ratio is used in the industry, Macquarie's ratio of 47.9 per cent is in the mid-range of peers.

Compensation ratio: FY2010–2012[1] (%)



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

In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some peers. No adjustment has been made for DVA, where peers have reported an amount in income that reflects the amount by which the market value of their issued debt has changed in value because of changes in the issuer's credit spreads.

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

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continued

Remuneration is in line with performance

Comparison of performance measures and executive remuneration measures: FY2011 – 2012

		2012	2011	Increase/ (Decrease) %
Performance measures				
NPAT	$Am	**730**	956	**(24)**
Basic EPS	Cents per share	**210.1**	282.5	**(26)**
Executive remuneration measures				
Total Compensation Expense	$Am	**3,335**	3,612	**(8)**
Average Staff headcount		**15,014**	15,325	**(2)**
Actual Staff headcount as at 31 March		**14,202**	15,556	**(9)**
Present Pay – CEO[1]	$Am	**2.85**	3.43	**(17)**
Future Conditional Pay – CEO[2]	$Am	**6.67**	8.80	**(24)**
Remuneration – Comparable KMP[3]	$Am	**34.4**	36.9	**(7)**
Remuneration – Total KMP	$Am	**63.5**	58.9	**8**

Macquarie has to balance its goal of attracting, retaining and motivating staff through remuneration against ensuring they are paid commensurate with Macquarie's overall performance. This aligns staff and shareholder interests. The analysis above shows that while overall profits have declined relative to the prior year, total compensation levels have also declined, although not to the same extent as the decline in profits. When assessing Total Compensation Expense, the following factors should be considered:

- the majority of headcount reductions occurred towards the latter part of the year. Actual headcount declined from 15,556 to 14,202 over the 12 months to 31 March 2012. However, average headcount declined from 15,325 to 15,014 over the same period
- a major portion of the Total Compensation Expense is fixed compensation, not profit share. On a comparable basis, total fixed compensation represents a higher proportion of the total remuneration expense for FY2012 than for the previous year, even though total fixed compensation is down on the prior year. Fixed compensation includes the cost of reducing headcount as a result of divesting non-scalable businesses, exiting certain markets and other business reorganisations during the year
- the Total Compensation Expense reflects the application of Macquarie's accounting policies (which are in accordance with Australian Accounting Standards) including:
  - the requirement to accelerate the expensing of MEREP awards granted in prior years as part of the deferred profit share arrangements to retiring Executive Committee members. Macquarie's accounting policy is to charge these expenses to the profit and loss account in the current year, even though these awards vest and, with the exception of awards that are released to meet any tax liability arising upon retirement, are released over a two year period post retirement in accordance with the remuneration arrangements approved by shareholders in December 2009. Similarly, for retiring Executive Committee members, Macquarie's accounting policy is to accelerate the expensing of PSU awards granted in prior years, even though the PSUs will continue to vest in accordance with the standard vesting schedule of two to four years, with exercisability subject to meeting the performance hurdles
  - the reversal of the previously recognised expense in regards to certain Executive Committee PSU and options. This is where the performance hurdles attached to PSUs and options issued to Executive Committee members were not achieved, were partially achieved or are not expected to be achieved and as such, the related expense previously recognised has been reversed in the current financial year, resulting in a reduction in total 2012 remuneration for the impacted individuals
  - the accounting expense in regards to previously granted options. This expense continues to be recognised evenly over the vesting period even though Macquarie ceased offering options in FY2009. The majority of these options are currently out of the money and are unlikely to vest

1 Present Pay represents remuneration that was granted and paid in the same year. This comprises:
- current year fixed remuneration (including superannuation)
- the available component of the current year profit share allocation (30 per cent for the Managing Director and CEO).

2 Future Conditional Pay is remuneration entitlements, payment of which are conditional and deferred to a future period. For the Managing Director and CEO this represents:
- the deferred unvested component of the current year profit share allocation (70 per cent for the Managing Director and CEO) which is allocated into a combination of Macquarie equity (MEREP) and Macquarie-managed fund equity (Post-2009 DPS Plan) (see sections 1.3.1 – 1.3.5 for details)
- PSUs allocated in the current year. PSUs vest after years three and four and are exercisable subject to the achievement of performance hurdles (see section 1.3.6 for details).

3 Comparable Executive KMP are Key Management Personnel who were members of the Executive Committee for the full year in both FY2012 and FY2011.

— the compensation expense in regards to the notional earnings on prior year restricted profit share allocations which are held under the Pre and Post-2009 DPS Plans. These notional earnings or losses reflect the investment performance of the assets in which the prior year retained DPS amounts have been invested. Their inclusion in the compensation expense, particularly for Executive Committee members disclosed in the Remuneration Disclosure in Appendix 3 may, therefore, cause distortions when year-on-year remuneration trends are examined. Compensation for comparable Executive KMP included a gain of $A1.7 million for FY2012 and a gain of $A2.8 million for FY2011.

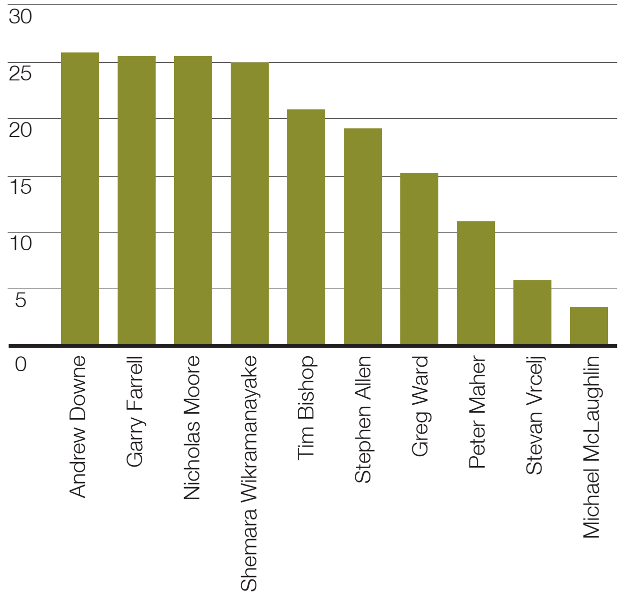
The above analysis also includes the Managing Director and CEO's present pay and future conditional pay. Present pay and future conditional pay allows shareholders to see how the remuneration awarded for 2012 is aligned with the current year's performance. The Managing Director and CEO's awarded variable present pay, and future conditional pay for FY2012, has declined in line with the decline in NPAT. Refer to Appendix 2 for more detail.

Staff retention continues to be a business priority

Whilst staffing levels have been impacted as a result of the divestment of certain non-scalable businesses and the downsizing of operations, the Board's view is that currently, Macquarie is attracting and retaining the people it needs to meet its business goals, with overall voluntary Director-level turnover slightly increasing from approximately 11 per cent in FY2011 to approximately 11.5 per cent in FY2012.

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

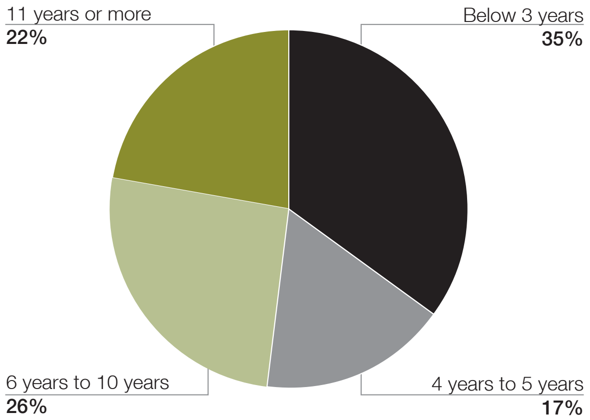
Tenure of Executive Committee members[1]



[1] Tenure information includes accumulated service at acquired companies, for example Bankers Trust Investment Bank and ING's Asian Equities business.

This depth of experience continues outside of the Executive Committee. As at 31 March 2012, 22 per cent of Director level staff have 11 years' experience or more with Macquarie, and a further 26 per cent have between six and 10 years' experience with Macquarie:

Directors' tenure as at 31 March 2012[2]



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

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4 Strong governance has been exercised

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

4.1 Strong Board oversight exists to ensure sound overall remuneration governance

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

The BRC currently comprises five Independent Non-Executive Directors:

Helen Nugent	BRC Chairman
Diane Grady	BRC Member
Kevin McCann	BRC Member, Macquarie Chairman
John Niland	BRC Member, Board Governance and Compliance Committee Chairman
Peter Warne	BRC Member, Board Risk Committee Chairman

The BRC members have the required experience and expertise in both human resources and risk to achieve effective governance of Macquarie's remuneration system.

All members of the BRC are also members of the Board Risk Committee, with Mr Warne being the Chairman since August 2009. He is also is a member of the Board Audit Committee. 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 12 times over the last financial year. Attendance at the meetings is set out in the Directors' Report. The Board pays serious, sustained attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives.

The responsibilities of the BRC are set out in a formal charter which is available on Macquarie's website. Board oversight of the approval framework for remuneration recommendations can be summarised as follows:

Board Approves (on BRC recommendation)	BRC Approves (on behalf of 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 FSA Code Staff population, 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 executive remuneration policy, including an annual review of compliance with the Executive Director minimum shareholding requirements
Executive Remuneration Recommendations	
— Individual remuneration recommendations[1] for: — Executive Committee members — Designated Executive Directors — FSA Code Staff — 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 remuneration and profit share recommendations for other Executive Directors — All individual Director promotion equity grants to staff other than those required to be approved by the Board and / or shareholders
Non-Executive Director Remuneration	
— The remuneration framework for the Non-Executive Directors of Macquarie and MBL — Remuneration recommendations for Non-Executive Director fees (subject to the maximum aggregate amount being approved by shareholders)[2]	

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

2 The *Corporations Act 2001 (Cth)* 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.

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4.2 An independent remuneration review has been undertaken

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

The BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of Executive Director remuneration from a US office of Pay Governance (the Pay Governance Review). The only services that Pay Governance provides to Macquarie are executive compensation consulting to the BRC. This year, the Pay Governance Review considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The cost of the Pay Governance Review was approximately $US110,000.

Pay Governance has confirmed that their analyses and observations have been made free from undue influence by Macquarie's Executive Key Management Personnel (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 two BRC meetings and presented their findings
- Pay Governance held a meeting 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 align the interests of staff and shareholders, the importance of attracting and retaining the right talent, and that the remuneration structure does not encourage excessive risks
- Macquarie's remuneration system:
  - has a paramount goal to encourage management to drive shareholder returns over the short and longer-term
  - has assisted Macquarie's solid shareholder returns, consistent return on equity results, and steady earnings growth over the past decade
  - has helped ensure that pay and performance are linked tightly
  - has several means to align executive reward and shareholder value creation
  - orients senior staff toward longer-term value creation rather than short-term benefits
- Macquarie's remuneration governance structure is fairly similar to that in place at Macquarie's global peers
- Macquarie's remuneration components support its remuneration 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 Macquarie PSUs for Executive Committee) is used as a long-term incentive for executives
  - Macquarie imposes a long vesting period on the portion of profit share deferred
  - Macquarie's total remuneration as a percentage of revenue is around the median relative to investment banking peers.

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

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

5.1 Non-Executive Director remuneration policy

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

- setting Board and Board 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
- not providing termination or retirement benefits other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

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

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

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

5.2 Board and Committee fees

Non-Executive Directors are remunerated via Board and Committee fees in line with market rates for relevant Australian financial organisations for the time commitment and responsibilities involved. These fees are reviewed annually on the basis of a comparison to market rates. An external review is conducted periodically both as verification of the market comparison and also to provide observations concerning the continuing validity of the methodology.

An internal review was completed in early 2012 to ensure that the Non-Executive Directors' remuneration was in line with relevant benchmark organisations and consistent with market trends, and to ensure that the methodology and framework employed is appropriate.

The BRC and the Board critically evaluated the analyses and the conclusions reached. Following this review, it was determined that fees should stay the same.

Macquarie and Macquarie Bank Fees

	Macquarie fees		Macquarie Bank fees		Total fees[1]	
	$A Chairman	$A Member	$A Chairman	$A Member	$A Chairman[2]	$A Member
Board	585,000	165,000	240,000	65,000	825,000	230,000
Board Risk Committee	70,000	30,000	n/a[3]	n/a[3]	70,000	30,000
Board Audit Committee	70,000	30,000	n/a[3]	n/a[3]	70,000	30,000
Board Remuneration Committee	70,000	30,000	n/a[3]	n/a[3]	70,000	30,000
Board Governance and Compliance Committee	57,500[4]	25,000	n/a[3]	n/a[3]	57,500	25,000
Board Nominating Committee	n/a[5]	8,000	n/a[3]	n/a[3]	n/a[5]	8,000

1 An additional annual travel allowance of $A40,000 is paid for any Non-Executive Director based in the United Kingdom.

2 The Chairman attends all Committee meetings but is not paid any Committee fees.

3 Macquarie Bank Limited does not have stand-alone Board committees. The Macquarie Board Audit Committee is a joint committee of Macquarie Group Limited and Macquarie Bank and the BRC also support both Boards.

4 The Chairman fee for the Board Governance and Compliance Committee was reduced during the year from $70,000 to $57,500, effective 1 June 2011.

5 No separate fee is paid for this role as it is filled by the Chairman.

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Base and Committee fees are paid monthly. Non-Executive Directors may elect to receive their remuneration, in part, in the form of superannuation contributions.

Information on the frequency of Board and Committee meetings is included on page 37 of the Directors' Report.

There are no termination payments to Non-Executive Directors on their retirement from office (and there never have been in the case of both Macquarie Group Limited and Macquarie Bank Limited) other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

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

5.3 Minimum shareholding requirement for Non-Executive Directors

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

Under the minimum shareholding requirement, Non-Executive Directors are required to acquire and maintain, directly or indirectly, a holding of 4,000 Macquarie ordinary shares, which they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they then maintain a holding of 6,000 Macquarie ordinary shares. Under Macquarie's *Trading Policy*, Non-Executive Directors are forbidden from hedging shares held to meet this minimum Macquarie shareholding requirement. Actual shareholdings are set out in Appendix 4.

Appendices: Key Management Personnel disclosures

Appendix 1: Key Management Personnel

The following persons were Voting Directors of Macquarie Group Limited for the period during the financial years ended 31 March 2012 and 31 March 2011, unless otherwise indicated:

Directors:		Changes during 2011 and 2012 (except as noted below)
Executive		
N.W. Moore[1]	Managing Director and CEO	
Non-Executive		
D.S. Clarke, AO		Resigned on 17 March 2011
D.J. Grady, AM		Appointed to the Board on 19 May 2011
M.J. Hawker, AM		
P.M. Kirby		
C.B. Livingstone, AO		
H.K. McCann, AM	Non-Executive Chairman	Appointed Chairman on 17 March 2011
J.R. Niland, AC		
H.M. Nugent, AO		
P.H. Warne		

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of Macquarie and its controlled entities during the financial years ended 31 March 2012 and 31 March 2011, unless otherwise indicated:

Executives:

S.D. Allen[1]	Group Head, Risk Management Group
T.C. Bishop[1]	Group Head, Macquarie Capital (appointed 1 January 2012) Country Head, United States of America (2 July 2010 to 31 December 2011)
M. Carapiet	Former Executive Chairman, Macquarie Capital and Macquarie Securities Group (retired from the Executive Committee on 11 July 2011)
A.J. Downe[1]	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell[1]	Group Head, Corporate and Asset Finance Group (appointed 2 July 2010)
R.S. Laidlaw	Former Executive Chairman, Macquarie Securities Group (11 July 2011 until retirement from the Executive Committee on 31 December 2011) Group Head, Macquarie Securities Group (to 7 April 2011) Group Head, Macquarie Capital (to 31 December 2011)
P.J. Maher[1]	Group Head, Banking and Financial Services Group
M. McLaughlin[1]	Country Head, United States of America (appointed 1 January 2012)
W.R. Sheppard	Former Deputy Managing Director (retired from the Executive Committee on 20 December 2011)
S. Vrcelj[1]	Group Head, Macquarie Securities Group (appointed 7 April 2011) Head of Global Cash and Equities (2 July 2010 until 22 November 2011)
G.C. Ward[1]	Deputy Managing Director (appointed 20 December 2011) Chief Financial Officer (to 20 December 2011)
S. Wikramanayake[1]	Group Head, Macquarie Funds Group

[1] Members of Macquarie's Executive Committee as at 27 April 2012.

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 Key Management Personnel, as defined by AASB 124 *Related Party Disclosures*. Macquarie's Non-Executive Directors are specifically required by the *Corporations Act 2001 (Cth)* to be included as Key Management Personnel for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider themselves as part of 'management'.

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Appendix 2: Remuneration disclosures – Managing Director and CEO[1]

For the Managing Director and CEO, three additional disclosures have been prepared for the first time this year in line with CAMAC's[2] indicative guidelines. These tables are prepared on a different basis than those required by Australian Accounting Standards and the Corporations Act, as disclosed in Appendix 3. These tables are not additive.

1. Crystallised Past Pay

This shows crystallised past pay to the Managing Director and CEO. Crystallised past pay represents at risk remuneration that was granted to the Managing Director and CEO in previous years and is paid in the current financial year.

	2012 $A	2011 $A	Increase/ (Decrease) %
Post-2009 DPS Plan	**551,019**	559,364	(1.5)
MEREP	**1,614,692**	2,206,219	(26.8)
PSUs	**98,535**	–	n/a
Options	**–**	–	n/a
Total	**2,264,246**	**2,765,583**	**(18.1)**

2. Present Pay

This table represents remuneration that was granted and paid in the same year. This comprises:

— Current year base remuneration (including superannuation)

— The available component of the current year profit share allocation (30 per cent for the Managing Director and CEO).

	2012 $A	2011 $A	Increase/ (Decrease) %
Base Remuneration[3]	**805,458**	733,921	9.7
Profit Share	**2,046,811**	2,700,654	(24.2)
Total	**2,852,269**	**3,434,575**	**(17.0)**

3. Future Conditional Pay

This table shows remuneration entitlements, payment of which are conditional and deferred to a future period. For the Managing Director and CEO this represents:

— The deferred unvested component of the current year profit share allocation (70 per cent for the Managing Director and CEO) which is allocated into a combination of Macquarie equity (MEREP) and Macquarie-fund equity (Post-2009 DPS Plan) (see sections 1.3.1 – 1.3.5 for details).

— PSUs allocated in the current year. PSUs vest after years three and four and are exercisable subject to the achievement of performance hurdles (see section 1.3.6 for details).

	2012 $A	2011 $A	Increase/ (Decrease) %
Post-2009 DPS Plan	**955,179**	1,260,305	(24.2)
MEREP	**3,823,613**	5,045,045	(24.2)
PSUs	**1,890,000**	2,490,000	(24.1)
Total	**6,668,792**	**8,795,350**	**(24.2)**

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

2 Corporations and Markets Advisory Committee.

3 The Managing Director and CEO received a base remuneration increase effective 1 July 2010. He did not receive a base remuneration increase during FY2012. The increase from FY2011 to FY2012 shown reflects the full year application of a 2010 decision. Base remuneration amounts do not include an accrual for long service leave (which is included in the Statutory Remuneration disclosure in Appendix 3).

Appendix 3: Statutory Remuneration disclosures

Executive remuneration

The remuneration arrangements for all of the persons listed above as Executive 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 2012 and 31 March 2011, only include remuneration relating to the portion of the relevant periods that each individual was a Key Management Personnel (KMP). Hence, comparable executive remuneration is confined to those who were 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 2012 (and for PSUs, also incorporates a risk free interest rate of 4.37 per cent; expected life of four years; and a dividend yield of 4.22 per cent per annum). In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each MEREP award when granted, and will use this valuation for recognising the expense over the remaining vesting period.

As explained in section 1.3.2 above, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

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

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

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

			Short-Term Employee Benefits		
			Salary (including superannuation) $A	Performance related remuneration[1] $A	Total short-term employee benefits $A
Executive Directors					
N.W. Moore	Managing Director and Chief Executive Officer	**2012**	**819,353**	**2,046,811**	**2,866,164**
		2011	746,499	2,700,654	3,447,153
Other Executives					
S.D. Allen	Group Head, Risk Management Group	**2012**	**771,156**	**1,468,777**	**2,239,933**
		2011	677,366	2,368,995	3,046,361
A.J. Downe	Group Head, Fixed Income, Currencies and Commodities Group	**2012**	**722,958**	**3,032,313**	**3,755,271**
		2011	664,158	3,198,143	3,862,301
P.J. Maher	Group Head, Banking and Financial Services Group	**2012**	**722,958**	**1,516,157**	**2,239,115**
		2011	658,333	1,705,676	2,364,009
G.C. Ward	Deputy Managing Director	**2012**	**771,156**	**1,658,296**	**2,429,452**
		2011	689,018	1,895,196	2,584,214
S. Wikramanayake	Group Head, Macquarie Funds Group	**2012**	**722,958**	**3,316,592**	**4,039,550**
		2011	640,857	2,463,754	3,104,611
Total Remuneration – Comparable Executive Key Management Personnel		**2012**	**4,530,539**	**13,038,946**	**17,569,485**
		2011	4,076,231	14,332,418	18,408,649
New Executives					
T.C. Bishop	Group Head, Macquarie Capital[10]	**2012**	**705,944**	**426,419**	**1,132,363**
		2011	511,746	1,449,660	1,961,406
G.A. Farrell	Group Head, Corporate and Asset Finance Group[10]	**2012**	**722,958**	**2,795,414**	**3,518,372**
		2011	543,806	1,678,978	2,222,784
M. McLaughlin	Country Head, United States[11]	**2012**	**104,885**	**116,459**	**221,344**
		2011	–	–	–
S. Vrcelj	Group Head, Macquarie Securities Group[10]	**2012**	**722,958**	**0**	**722,958**
		2011	544,113	664,447	1,208,560
Former Executives					
M. Carapiet	Former Executive Chairman, Macquarie Capital and Macquarie Securities Group[12, 15]	**2012**	**195,031**	**0**	**195,031**
		2011	640,857	1,179,759	1,820,616
R.S. Laidlaw	Former Group Head and Executive Chairman, Macquarie Securities and Macquarie Capital[13, 15]	**2012**	**541,499**	**0**	**541,499**
		2011	640,857	1,435,611	2,076,468
W.R. Sheppard	Former Deputy Managing Director[14, 15]	**2012**	**524,217**	**710,698**	**1,234,915**
		2011	673,479	1,421,397	2,094,876
Total Remuneration – Executive Key Management Personnel (including new and former members)		**2012**	**8,048,031**	**17,087,936**	**25,135,967**
		2011	7,631,089	22,162,270	29,793,359

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[5,6] $A	Options[7,8,9] $A	Total share-based payments $A	Total remuneration $A	Percentage of remuneration that consists of options and PSUs %
955,179	**409,034**	**1,364,213**	**3,349,480**	**780,548**	**(570,839)**	**3,559,189**	**7,789,566**	**2.69**
1,260,305	613,298	1,873,603	3,492,752	2,302,283	(2,422,387)	3,372,648	8,693,404	(1.38)
293,755	**107,327**	**401,082**	**858,199**	**460,475**	**99,867**	**1,418,541**	**4,059,556**	**13.80**
473,799	149,185	622,984	900,867	724,743	254,090	1,879,700	5,549,045	17.64
303,231	**838,300**	**1,141,531**	**2,379,454**	**387,426**	**(398,237)**	**2,368,643**	**7,265,445**	**(0.15)**
319,814	1,565,782	1,885,596	1,974,811	2,801,316	(1,423,018)	2,633,109	8,381,006	7.85
151,616	**43,788**	**195,404**	**1,047,153**	**353,649**	**(117,214)**	**1,283,588**	**3,718,107**	**6.36**
170,568	63,427	233,995	935,379	814,914	(448,915)	1,301,378	3,899,382	9.39
331,659	**104,567**	**436,226**	**1,185,240**	**281,280**	**(125,221)**	**1,341,299**	**4,206,977**	**3.71**
379,039	152,653	531,692	1,063,893	1,032,724	(491,328)	1,605,289	4,721,195	11.47
1,658,296	**200,703**	**1,858,999**	**750,886**	**815,477**	**(99,945)**	**1,466,418**	**7,364,967**	**9.72**
1,231,877	282,891	1,514,768	515,124	814,137	(322,373)	1,006,888	5,626,267	8.74
3,693,736	**1,703,719**	**5,397,455**	**9,570,412**	**3,078,855**	**(1,211,589)**	**11,437,678**	**34,404,618**	
3,835,402	2,827,236	6,662,638	8,882,826	7,770,117	(4,853,931)	11,799,012	36,870,299	
(2,790,542)	**48,519**	**(2,742,023)**	**1,854,807**	**482,657**	**270,928**	**2,608,392**	**998,732**	**75.45**
(194,439)	494,800	300,361	766,103	278,337	480,583	1,525,023	3,786,790	20.04
279,541	**411,564**	**691,105**	**1,221,236**	**843,180**	**116,446**	**2,180,862**	**6,390,339**	**15.02**
167,898	509,527	677,425	629,841	310,889	218,571	1,159,301	4,059,510	13.04
11,646	**59,100**	**70,746**	**451,983**	**17,648**	**5,760**	**475,391**	**767,481**	**3.05**
–	–	–	–	–	–	–	–	–
0	**36,185**	**36,185**	**836,336**	**264,887**	**99,114**	**1,200,337**	**1,959,480**	**18.58**
155,038	59,257	214,295	721,615	205,237	164,883	1,091,735	2,514,590	14.72
1,802,495	**498,584**	**2,301,079**	**3,558,528**	**260,738**	**(432,583)**	**3,386,683**	**5,882,793**	**(2.92)**
(774,723)	1,650,229	875,506	1,114,537	1,017,002	(1,941,858)	189,681	2,885,803	(32.05)
0	**66,177**	**66,177**	**5,777,621**	**2,051,060**	**(306,713)**	**7,521,968**	**8,129,644**	**21.46**
334,976	650,490	985,466	1,660,380	1,519,064	(655,463)	2,523,981	5,585,915	15.46
710,698	**14,141**	**724,839**	**2,164,837**	**917,020**	**(111,792)**	**2,970,065**	**4,929,819**	**16.33**
284,279	137,324	421,603	736,649	564,369	(603,835)	697,183	3,213,662	(1.23)
3,707,574	**2,837,989**	**6,545,563**	**25,435,760**	**7,916,045**	**(1,570,429)**	**31,781,376**	**63,462,906**	
3,808,431	6,328,863	10,137,294	14,511,951	11,665,015	(7,191,050)	18,985,916	58,916,569	

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Notes to the statutory remuneration disclosures

1 Performance related remuneration represents the current portion of each individual's profit share allocation in relation to the reporting period when they were a KMP.

2 This is the amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie-managed fund equity (Post-2009 DPS Plan). For 2011 and 2012, this amount also includes an adjustment to reflect reallocations of prior years' retained profit share between restricted profit share and share based payments.

3 This is the notional earnings on prior year restricted profit share allocations described on page 69 in this Appendix.

4 This is the current year amortisation for retained profit share, calculated on the basis as described in note 1(xx) – Share based payments to the 2012 Financial Statements in respect of:

- retained profit share, which is deferred to future periods and invested in the MEREP. Amortisation in relation to retained profit share awarded for the year ending 31 March 2012 is an estimate. The final amortisation is determined when the awards are allocated on or around 22 June 2012.
- the discount to the fair value per share at grant date for Transitioned Amounts.

5 This amount has been calculated on the basis as described in note 1(xx) – Share based payments to the 2012 Financial Statements. PSU grants for each individual have been measured at their grant date based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of PSUs granted. For grants in respect of the 2012 performance year which have not yet been granted, the Macquarie share price as at 31 March 2012 is used to estimate the expense.

6 Performance hurdles attached to the PSUs issued to the Executive Committee allow for PSUs to become exercisable upon vesting only when the relevant performance hurdles are met. Adjustments are made to reduce previously recognised remuneration where performance hurdles have not been met, have been partially met or are not expected to be met.

7 This amount has been calculated on the basis as described in note 1(xx) – Share based payments to the 2012 Financial Statements. Prior option grants for each individual have been measured at their grant dates based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of options granted, regardless of whether the options are in or out of the money. For 2012, the amount is based on options granted on or after 30 June 2006 (exercise price of $A61.79), on or after 30 June 2007 (exercise price of $A71.41) and on or after 30 June 2008 (exercise price of $A53.91).

8 If an option is forfeited in a reporting period, amounts previously recognised as remuneration in relation to the forfeited options are deducted from remuneration in the reporting period. During 2012, 66,668 options held by Mr Carapiet were forfeited when he resigned from Macquarie Group Limited.

9 Performance hurdles attached to the options issued to the Executive Committee and Executive Voting Directors allow for options to become exercisable upon the relevant performance hurdles being met. Adjustments are made to reduce previously recognised remuneration where performance hurdles have not been met or are not expected to be met.

Notes on individuals

Disclosed remuneration reflects their time as KMP

10 Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010.

11 Mr McLaughlin was appointed to the Executive Committee on 1 January 2012.

12 Mr Carapiet retired from the Executive Committee on 11 July 2011.

13 Mr Laidlaw retired from the Executive Committee on 31 December 2011.

14 Mr Sheppard retired from the Executive Committee on 20 December 2011.

15 During the year the BRC exercised its discretion to accelerate the vesting of retained profit share in the form of RSUs for Mr Carapiet, Mr Sheppard and Mr Laidlaw due to the announcement of their intention to cease employment on the grounds of genuine retirement. The BRC waived the employment condition attached to the PSUs however these become exercisable only upon the achievement of the performance hurdles tested at each vesting date. All outstanding amortisation has been recognised as remuneration in the current year and results in an increase in total 2012 remuneration for the impacted individuals.

Non-Executive Director Remuneration

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

		Directors Fees $A	Other Benefits[1] $A	Total Compensation $A
D.J. Grady[2]	**2012**	**245,753**	**–**	**245,753**
	2011	–	–	–
M.J. Hawker[3]	**2012**	**285,000**	**40,000**	**325,000**
	2011	257,500	30,000	287,500
P.M. Kirby	**2012**	**315,000**	**–**	**315,000**
	2011	310,750	–	310,750
C.B. Livingstone[4]	**2012**	**363,000**	**–**	**363,000**
	2011	355,050	–	355,050
H.K. McCann[5]	**2012**	**825,000**	**–**	**825,000**
	2011	370,000	7,500	377,500
J.R. Niland[6]	**2012**	**342,083**	**–**	**342,083**
	2011	310,750	–	310,750
H.M. Nugent	**2012**	**338,000**	**22,500**	**360,500**
	2011	335,500	29,250	364,750
P.H. Warne[7]	**2012**	**385,000**	**–**	**385,000**
	2011	377,050	–	377,050
D.S. Clarke[8]	**2012**	**–**	**–**	**–**
	2011	825,000	–	825,000
Total Remuneration – Non-Executive	**2012**	**3,098,836**	**62,500**	**3,161,336**
Key Management Personnel	2011	3,141,600	66,750	3,208,350

1 Other benefits for Non-Executive Directors include an annual travel allowance of $A40,000 for Mr Hawker effective 1 July 2010 as a Non-Executive Director based in the United Kingdom; BRC related per diem fees for Dr Nugent of $A22,500 for approved additional work (2011: $A29,250).

2 Ms Grady was appointed to the Board and the Board Risk Committee on 19 May 2011 and the Board Remuneration Committee on 1 August 2011.

3 Mr Hawker was appointed to the Board Audit Committee on 1 June 2011.

4 Ms Livingstone was appointed to the Board Governance and Compliance Committee on 15 June 2010.

5 Mr McCann was appointed Chairman on 17 March 2011, ceased to be a member of the Board Audit Committee and the Board Governance and Compliance Committee on 1 June 2011 and was appointed to the Board Remuneration Committee on 1 August 2011.

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

7 Mr Warne was appointed to the Board Governance and Compliance Committee on 15 June 2010.

8 Mr Clarke resigned from the Board on 17 March 2011.

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for the financial year ended 31 March 2012
continued

Appendix 4: Share and option disclosures

Shareholding of Key Management Personnel and their related parties

The following table sets out details of Macquarie fully paid ordinary shares held during the year by the Key Management Personnel including their related parties.

For the year ended 31 March 2012

Name and position	Number of shares held at 1 April 2011[1]	Shares received on withdrawal from the MEREP	Other changes[2]	Number of shares held at 31 March 2012[3]
Executive Directors				
N.W. Moore	1,245,745	120,708	–	1,366,453
Non-Executive Directors				
H.K. McCann	13,485	–	–	13,485
D.J. Grady[4]	2,000	–	114	2,114
M.J. Hawker	6,103	–	2,500	8,603
P.M. Kirby	23,198	–	–	23,198
C.B. Livingstone	12,000	–	–	12,000
J.R. Niland	10,122	–	–	10,122
H.M. Nugent	21,176	–	–	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen	38,205	13,288	(13,290)	38,203
T.C. Bishop	–	11,974	–	11,974
A.J. Downe	58,099	4,993	–	63,092
G.A. Farrell	131,683	–	–	131,683
P.J. Maher	8,737	11,045	(10,148)	9,634
M. McLaughlin[5]	–	–	–	–
S. Vrcelj	–	9,341	(9,341)	–
G.C. Ward	8,936	2,492	(2,492)	8,936
S. Wikramanayake	335,352	9,558	–	344,910
Former Executives				
M. Carapiet[6]	587,616	–	–	587,616
R. S. Laidlaw[6]	1,865	13,159	–	15,024
W.R. Sheppard[6]	228,183	15,163	–	243,346

Minimum shareholding requirements for Executive Key Management Personnel are met by the RSUs they hold through MEREP.

1 Or date of appointment if later.

2 Includes on-market acquisitions and disposals.

3 Or date of resignation/retirement if earlier.

4 Ms Grady was appointed to the board on 19 May 2011. The opening balance on 1 April 2011 represents her holdings at the date of appointment.

5 Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents his holdings at the date of appointment.

6 Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. Balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Shareholding of Key Management Personnel and their related parties continued

For the year ended 31 March 2011

Name and position	Number of shares held at 1 April 2010[1]	Shares received on withdrawal from the MEREP	Other changes[2]	Number of shares held at 31 March 2011[3]
Executive Directors				
N.W. Moore	1,245,745	–	–	1,245,745
Non-Executive Directors				
H.K. McCann	13,485	–	–	13,485
M.J. Hawker	4,103	–	2,000	6,103
P.M. Kirby	23,198	–	–	23,198
C.B. Livingstone	12,000	–	–	12,000
J.R. Niland	10,122	–	–	10,122
H.M. Nugent	21,176	–	–	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen	38,205	13,290	(13,290)	38,205
T.C. Bishop[4]	–	6,074	(6,074)	–
M. Carapiet	587,616	–	–	587,616
A.J. Downe	78,878	–	(20,779)	58,099
G.A. Farrell[4]	148,646	–	(16,963)	131,683
R.S. Laidlaw	39,035	13,159	(50,329)	1,865
P.J. Maher	74,175	9,832	(75,270)	8,737
W.R. Sheppard	249,309	14,799	(35,925)	228,183
S. Vrcelj[4]	–	9,341	(9,341)	–
G.C. Ward	15,345	8,106	(14,515)	8,936
S. Wikramanayake	326,867	8,485	–	335,352
Former Non-Executive Directors				
D.S. Clarke[5]	273,717	–	(213,464)	60,253

1 Or date of appointment if later.

2 Includes on-market acquisitions and disposals.

3 Or date of resignation/retirement if earlier.

4 Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents their holdings at the date of appointment.

5 Mr Clarke resigned from the Board on 17 March 2011. Balance at 31 March 2011 represents holdings at date of resignation.

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for the financial year ended 31 March 2012
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MEREP RSU Awards of Key Management Personnel and their related parties

The following tables set out details of the MEREP RSU awards associated with Macquarie shares held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis. PSUs are disclosed in a separate table.

For the year ended 31 March 2012

Name and position	Number of RSU awards held at 1 April 2011[1]	RSU awards granted during the financial year[2]	Vested RSU awards withdrawn or sold from the MEREP during the financial year[3]	Number of RSU awards held at 31 March 2012[4]	Number of RSU awards vested and not withdrawn at 31 March 2012
Executive Directors					
N.W. Moore	571,822	152,602	(117,134)	607,290	–
Executives					
S.D. Allen[5]	140,579	40,158	(13,288)	167,449	–
T.C. Bishop[6]	153,168	68,138	(18,078)	203,228	–
A.J. Downe	178,838	87,129	–	265,967	–
G.A. Farrell	60,508	60,668	–	121,176	–
P.J. Maher	114,881	46,469	(9,832)	151,518	–
M. McLaughlin[7]	258,851	–	–	258,851	–
S. Vrcelj	95,038	56,021	(9,341)	141,718	–
G.C. Ward	122,895	45,895	(8,106)	160,684	–
S. Wikramanayake[8]	74,148	37,290	(8,485)	102,953	–
Former Executives					
M. Carapiet[9]	80,376	29,543	–	109,919	–
R.S. Laidlaw[9]	184,885	91,260	(13,159)	262,986	–
W.R. Sheppard[9]	115,699	34,421	(14,799)	135,321	–

1 Or date of appointment if later.

2 As discussed in note 1(xx) – Summary of significant accounting policies, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above relate to 2011.

3 Includes vested RSUs transferred to the KMP's shareholding and vested RSUs where the underlying share is sold directly by the MEREP Trustee and not transferred to the KMP's shareholdings.

4 Or date of resignation/retirement if earlier.

5 At 31 March 2012, 84,832 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

6 At 31 March 2012, 66,151 of these awards are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

7 Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

8 At 31 March 2012, 47,603 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

9 Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. During the year the BRC exercised its discretion to accelerate the vesting of retained profit share in the form of RSUs for Mr Carapiet, Mr Sheppard and Mr Laidlaw due to the announcement of their intention to cease employment on the grounds of genuine retirement. This acceleration is effective the date they cease employment with the company. All outstanding amortisation has been recognised as an expense in the current year. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

MEREP RSU Awards of Key Management Personnel and their related parties continued

For the year ended 31 March 2011

Name and position	Number of RSU awards held at 1 April 2010[1]	RSU awards granted during the financial year[2]	Vested RSU awards withdrawn from the MEREP during the financial year	Number of RSU awards held at 31 March 2011[3]	Number of RSU awards vested at 31 March 2011[3]
Executive Directors					
N.W. Moore	466,460	105,362	–	571,822	58,567
Executives					
S.D. Allen[4]	113,565	40,304	(13,290)	140,579	–
T.C. Bishop[5, 6]	159,242	–	(6,074)	153,168	6,002
M. Carapiet	34,661	45,715	–	80,376	–
A.J. Downe	80,877	97,961	–	178,838	–
G.A. Farrell[5]	60,508	–	–	60,508	–
R.S. Laidlaw	126,778	71,266	(13,159)	184,885	–
P.J. Maher	88,468	36,245	(9,832)	114,881	–
W.R. Sheppard	108,729	21,769	(14,799)	115,699	–
S. Vrcelj[5]	104,379	–	(9,341)	95,038	–
G.C. Ward	92,688	38,313	(8,106)	122,895	–
S. Wikramanayake[7]	69,028	13,605	(8,485)	74,148	–

1 Or date of appointment if later.

2 As discussed in note 1(xx) – Summary of significant accounting policies, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above relate to 2010.

3 Or date of resignation/retirement if earlier.

4. At 31 March 2011, 88,406 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

5 Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents their holdings at the date of appointment.

6 At 31 March 2011, 60,382 of these awards are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

7 At 31 March 2011, 47,603 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

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for the financial year ended 31 March 2012
continued

MEREP Performance Share Unit (PSU) Awards of Key Management Personnel and their related parties

The following tables set out details of MEREP PSU awards held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis.

For the year ended 31 March 2012

Name and position	Number of PSU awards held at 1 April 2011[1]	PSU awards granted during the financial year[2]	Vested PSU awards exercised during the financial year	PSU awards not able to be exercised due to performance hurdles not met[3]	Number of PSU awards held at 31 March 2012[4]	Number of PSU awards vested and not exercised during the financial year	Number of PSU awards vested and not exercised at 31 March 2012
Executive Directors							
N.W. Moore	146,525	159,981	(3,574)	(9,192)	293,740	–	–
Executives							
S.D. Allen	29,906	59,173	–	–	89,079	–	–
T.C. Bishop	–	71,317	–	–	71,317	–	–
A.J. Downe	153,067	113,721	(4,993)	(12,840)	248,955	–	–
G.A. Farrell	–	79,027	–	–	79,027	–	–
P.J. Maher	49,796	60,587	(1,213)	(3,120)	106,050	–	–
M. McLaughlin[5]	–	–	–	–	–	–	–
S. Vrcelj	–	52,170	–	–	52,170	–	–
G.C. Ward	70,711	67,462	(2,492)	(6,408)	129,273	–	–
S. Wikramanayake	36,427	87,379	(1,073)	(2,760)	119,973	–	–
Former Executives							
M. Carapiet[6]	103,924	–	(3,201)	(8,232)	92,491	–	–
R.S. Laidlaw[6]	93,210	109,866	–	(4,968)	198,108	1,932	1,932
W.R. Sheppard[6]	28,827	50,500	(364)	(936)	78,027	–	–

1 Or date of appointment if later.

2 As discussed in note 1(xx) – Summary of significant accounting policies, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. PSUs disclosed as granted above relate to 2011.

3 Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2011 were partially achieved and therefore some PSU awards did not become exercisable and lapsed. The related expense previously recognised on these PSU grants was reversed during the current and prior financial years.

4 Or date of resignation/retirement if earlier.

5 Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

6 Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. During the year the BRC exercised its discretion to waive the employment condition attached to the PSUs yet to vest for Mr Carapiet, Mr Sheppard and Mr Laidlaw due to the announcement of their intention to cease employment on the grounds of genuine retirement. The PSUs become exercisable only upon the achievement of the performance hurdles tested at each vesting date in the future. All outstanding amortisation on these PSUs has been recognised as an expense in the current year. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

MEREP Performance Share Unit (PSU) Awards of Key Management Personnel and their related parties
continued

For the year ended 31 March 2011

Name and position	Number of PSU awards held at 1 April 2010[1]	PSU awards granted during the financial year[2]	PSU awards exercised during the financial year	Number of PSU awards held at 31 March 2011[3]	Number of PSU awards vested and not exercised during the financial year	Number of PSU awards vested and not exercised at 31 March 2011[3]
Executive Directors						
N.W. Moore	38,300	108,225	–	146,525	–	–
Executives						
S.D. Allen	–	29,906	–	29,906	–	–
T.C. Bishop	–	–	–	–	–	–
M. Carapiet	34,300	69,624	–	103,924	–	–
A.J. Downe	53,500	99,567	–	153,067	–	–
G.A. Farrell	–	–	–	–	–	–
R.S. Laidlaw	20,700	72,510	–	93,210	–	–
P.J. Maher	13,000	36,796	–	49,796	–	–
W.R. Sheppard	3,900	24,927	–	28,827	–	–
S. Vrcelj	–	–	–	–	–	–
G.C. Ward	26,700	44,011	–	70,711	–	–
S. Wikramanayake	11,500	24,927	–	36,427	–	–

1 Or date of appointment if later.

2 As discussed in note 1(xx) – Summary of significant accounting policies, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, PSUs disclosed as granted above relate to 2010.

3 Or date of resignation/retirement if earlier.

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Details of PSUs granted and their fair value at grant date

For the year ended 31 March 2012

Name and position	Date PSUs granted[1]	Number of PSUs granted	PSUs exercise price $A	Fair value at grant date[2] $A	Value of PSUs granted as part of remuneration during the year $A	Date first tranche can be exercised	Expiry date
Executive Directors							
N.W. Moore	15 August 2011	159,981	–	20.89	3,342,003	1 July 2013	15 August 2019
Executives							
S. D Allen	15 August 2011	59,173	–	20.89	1,236,124	1 July 2013	15 August 2019
T.C. Bishop	15 August 2011	71,317	–	20.89	1,489,812	1 July 2013	15 August 2019
A.J. Downe	15 August 2011	113,721	–	20.89	2,375,632	1 July 2013	15 August 2019
G.A. Farrell	15 August 2011	79,027	–	20.89	1,650,874	1 July 2013	15 August 2019
P.J. Maher	15 August 2011	60,587	–	20.89	1,265,662	1 July 2013	15 August 2019
S. Vrcelj	15 August 2011	52,170	–	20.89	1,089,831	1 July 2013	15 August 2019
G.C. Ward	15 August 2011	67,462	–	20.89	1,409,281	1 July 2013	15 August 2019
S. Wikramanayake	15 August 2011	87,379	–	20.89	1,825,347	1 July 2013	15 August 2019
Former Executives							
R.S. Laidlaw	15 August 2011	109,866	–	20.89	2,295,101	1 July 2013	15 August 2019
W.R. Sheppard	15 August 2011	50,500	–	20.89	1,054,945	1 July 2013	15 August 2019

[1] This is the grant date for accounting purposes.

[2] Refer to notes on fair value below.

Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to Key Management Personnel. The fair value of such grants is being amortised and disclosed as part of each KMP remuneration on a straight-line basis over the vesting period.

The 2011 PSU allocation has been determined based on a valuation of a PSU at 15 August 2011. The fair value at this date has been estimated using a discounted cash flow method.

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

— risk free interest rate: 5.71 per cent per annum

— expected life of PSU: 4 years

— forecast dividend yield: 5.20 per cent per annum

Details of PSUs granted and their fair value at grant date continued

For the year ended 31 March 2011

Name and position	Date PSUs granted[1]	Number of PSUs granted	PSUs exercise price $A	Fair value at grant date[2] $A	Value of PSUs granted as part of remuneration during the year $A	Date first tranche can be exercised	Expiry date
Executive Directors							
N.W. Moore	13 August 2010	108,225	–	34.63	3,747,832	1 July 2012	13 August 2018
Executives							
S. D Allen	13 August 2010	29,906	–	34.63	1,035,645	1 July 2012	13 August 2018
M. Carapiet	13 August 2010	69,624	–	34.63	2,411,079	1 July 2012	13 August 2018
A.J. Downe	13 August 2010	99,567	–	34.63	3,448,005	1 July 2012	13 August 2018
R.S. Laidlaw	13 August 2010	72,510	–	34.63	2,511,021	1 July 2012	13 August 2018
P.J. Maher	13 August 2010	36,796	–	34.63	1,274,245	1 July 2012	13 August 2018
W.R. Sheppard	13 August 2010	24,927	–	34.63	863,222	1 July 2012	13 August 2018
G.C. Ward	13 August 2010	44,011	–	34.63	1,524,101	1 July 2012	13 August 2018
S. Wikramanayake	13 August 2010	24,927	–	34.63	863,222	1 July 2012	13 August 2018

1 This is the grant date for accounting purposes.

2 Refer to notes on fair value below.

Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to Key Management Personnel. The fair value of such grants is being amortised and disclosed as part of each KMP's remuneration on a straight-line basis over the vesting period.

The 2010 PSU allocation has been determined based on a valuation of a PSU at 13 August 2010. The fair value at this date has been estimated using a discounted cash flow method.

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

— risk free interest rate: 5.20 per cent per annum

— expected life of PSU: 4 years

— forecast dividend yield: 3.47 per cent per annum

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Option holdings of Key Management Personnel and their related parties

The following table sets out details of options held during the year for the Key Management Personnel including their related parties. The options are over fully paid unissued ordinary shares of Macquarie Group Limited.

For the year ended 31 March 2012

Name and position	Number of options outstanding at 1 April 2011[1]	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met[2]	Other changes[3]	Number of options outstanding at 31 March 2012[4,5]	Number of options vested during the financial year	Number of options vested at 31 March 2012[4]	Value of options granted as part of remuneration and that are exercised or sold during the financial year $A[6]
Executive Directors								
N.W. Moore	267,401	–	(132,768)	(53,333)	81,300	–	–	–
Executives								
S.D. Allen	148,975	–	–	(55,490)	93,485	31,163	73,785	–
T.C. Bishop	330,805	–	–	(57,805)	273,000	91,001	241,666	–
A.J. Downe	175,334	–	(87,667)	(28,333)	59,334	–	–	–
G.A. Farrell	178,095	–	–	(60,115)	117,980	39,328	92,980	–
P.J. Maher	51,668	–	(25,000)	(10,000)	16,668	–	–	–
M. McLaughlin[7]	19,000	–	–	–	19,000	–	12,666	–
S. Vrcelj	108,000	–	–	(26,000)	82,000	27,333	58,666	–
G.C. Ward	55,667	–	(27,833)	(10,000)	17,834	–	–	–
S. Wikramanayake	128,609	–	(26,666)	(30,085)	71,858	15,064	45,190	–
Former Executives								
M. Carapiet[8]	223,120	–	(108,666)	(66,668)	47,786	–	47,786	–
R.S. Laidlaw[8]	250,605	–	(45,000)	(83,240)	122,365	25,789	77,365	–
W.R.Sheppard[8]	64,000	–	(32,000)	(15,000)	17,000	–	–	–

1 Or date of appointment if later.

2 Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2011 were not achieved and therefore the options did not become exercisable. The related expense previously recognised on these option grants was reversed during the year ended 31 March 2011. The value of those options that failed to become exercisable on 1 July 2011 was $nil.

3 Includes vested options lapsed and forfeited during the financial year.

4 Or date of resignation/retirement if earlier.

5 Options outstanding at the end of the year excludes options that are not exercisable due to performance hurdles not met. Options outstanding per the Directors' relevant interest on page 87 of the Directors' Report includes all options on issue including those not able to be exercised due to failure to meet past performance hurdles.

6 Includes options that were granted as part of remuneration in prior financial year.

7 Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

8 Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Option holdings of Key Management Personnel and their related parties continued

The following table sets out details of options held during the year for the Key Management Personnel including their related parties. The options are over fully paid unissued ordinary shares of Macquarie Group Limited.

For the year ended 31 March 2011

Name and position	Number of options outstanding at 1 April 2010[1]	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met[2]	Other changes[3]	Number of options outstanding at 31 March 2011[4,5]	Number of options vested during the financial year	Number of options vested at 31 March 2011[4]	Value of options granted as part of remuneration and that are exercised or sold during the financial year $A[6]
Executive Directors								
N.W. Moore	623,501	–	(186,100)	(170,000)	267,401	–	53,333	–
Executives								
S.D. Allen	218,725	–	–	(69,750)	148,975	49,659	98,112	–
T.C. Bishop[7]	355,219	–	–	(24,414)	330,805	–	181,470	–
M. Carapiet	460,781	–	(156,454)	(81,207)	223,120	–	47,786	–
A.J. Downe	341,334	–	(116,000)	(50,000)	175,334	–	28,333	–
G.A. Farrell[7]	211,595	–	–	(33,500)	178,095	–	113,767	–
R.S. Laidlaw	347,925	–	(45,000)	(52,320)	250,605	53,536	134,816	–
P.J. Maher	103,334	–	(34,999)	(16,667)	51,668	–	10,000	–
W.R. Sheppard	161,000	–	(47,000)	(50,000)	64,000	–	15,000	–
S. Vrcelj[7]	108,000	–	–	–	108,000	–	57,333	–
G.C. Ward	123,500	–	(37,833)	(30,000)	55,667	–	10,000	–
S. Wikramanayake	178,275	–	(26,666)	(23,000)	128,609	25,092	60,211	–

1 Or date of appointment if later.

2 Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2010 were not achieved and therefore the options did not become exercisable. The related expense previously recognised on these option grants was reversed during the year ended 31 March 2011. The value of those options that failed to become exercisable on 1 July 2010 was $nil.

3 Includes vested options lapsed during the financial year.

4 Or date of resignation/retirement if earlier.

5 Options outstanding at the end of the year excludes options that are not exercisable due to performance hurdles not met.

6 Includes options that were granted as part of remuneration in prior financial years.

7 Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents holdings at the date of appointment.

Ordinary shares issued as a result of the exercise of options by Key Management Personnel during the year

There were no options exercised by Key Management Personnel during the years ending 31 March 2012 and 31 March 2011.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

Appendix 5: Loan disclosures

Loans to Key Management Personnel

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

		Opening balance at 1 April $A'000	Interest charged $A'000	Write-downs $A'000	Closing balance at 31 March $A'000
Total for Key Management Personnel and their related parties	**2012**	**5,532**	**374**	**–**	**5,882**
	2011	31,691	1,290	–	5,532
Total for Key Management Personnel[1]	**2012**	**5,532**	**374**	**–**	**5,882**
	2011	12,422	693	–	5,532

[1] Number of persons included in the aggregate at 31 March 2012: 3 (2011: 3).

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

Certain loans are provided under zero cost collar facilities secured over Macquarie Group Limited shares under normal terms and conditions consistent with other customers and employees.

Key Management Personnel including their related parties with loans above $A100,000 at any time during the financial year

For the year ended 31 March 2012

Name and position	Balance at 1 April 2011[1] $A'000	Interest charged[2] $A'000	Write-downs $A'000	Balance at 31 March 2012[3] $A'000	Highest balance during financial year $A'000
Executive Directors					
N.M. Moore	**5,274**	**356**	**–**	**5,274**	**5,274**
Executives					
P.J. Maher	**20**	**5**	**–**	**370**	**370**
Former Executives					
R.S. Laidlaw[4]	**238**	**13**	**–**	**238**	**238**

[1] Or date of appointment if later.

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

[3] Or date of resignation/retirement if earlier.

[4] Mr Laidlaw retired from the Executive Committee effective 31 December 2011. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Key Management Personnel including their related parties with loans above $A100,000 at any time during the financial year continued

For the year ended 31 March 2011

Name and position	Balance at 1 April 2010[1] $A'000	Interest charged[2] $A'000	Write-downs $A'000	Balance at 31 March 2011[3] $A'000	Highest balance during financial year $A'000
Executive Directors					
N.M. Moore	5,274	304	–	5,274	5,274
Executives					
R.S. Laidlaw	238	14	–	238	238
Former Non-Executive Directors					
D.S. Clarke[4]	26,160	971	–	5,757	26,526

1 Or date of appointment if later.

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

3 Or date of resignation/retirement if earlier.

4 Mr Clarke resigned from the Board on 17 March 2011.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

Appendix 6: Other disclosures

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

Certain Key Management Personnel and their related parties have acquired Infrastructure Bonds and similar products from subsidiaries within Macquarie, which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to a legal right of set–off and as such are not recognised for financial reporting purposes. The only amounts recognised by Macquarie in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2012 $A'000	Consolidated 2011 $A'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**1,336**	13,892

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

Executive Directors

N.W. Moore

Non-Executive Directors

P.M. Kirby (2011 only)

Executives

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

Former Executives

M. Carapiet, R.S. Laidlaw, W.R. Sheppard

The following Key Management Personnel (including related parties) have entered into zero cost collar transactions with Macquarie and other non related entities in respect of Macquarie Group Limited ordinary shares. This has the effect of acquiring cash-settled put options against movements in the Macquarie Group Limited share price below nominated levels and disposing of the benefit of any share price movement above the nominated level.

Name and position	**Description**	**Number of shares 2012**	Number of shares 2011
Executives			
A.J. Downe[1]	Matured August 2010	–	21,905

[1] Mr Downe entered into a zero cost collar for the period 4 June 2010 to 2 August 2010. There was no loan associated with this collar and the shares were not sold upon maturity on 2 August 2010. Mr Downe subsequently sold these shares in August 2010.

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

This is the end of the Remuneration Report.

Voting Directors' equity participation

At 27 April 2012, the Voting Directors have relevant interests, as notified by the Voting Directors to the Australian Securities Exchange in accordance with the *Corporations Act 2001 (Cth)* (the Act), in the following shares and share options of Macquarie:

	Fully paid ordinary shares held at 27 April 2012	Share options held at 27 April 2012[1]	RSUs held in the MEREP[2]	PSUs held in the MEREP[2]
N.W. Moore	1,366,453	398,300	607,290	293,740
D. J. Grady	2,114	–	–	–
M.J. Hawker	4,500	–	–	–
P.M. Kirby	23,198	–	–	–
C.B. Livingstone	12,000	–	–	–
H.K. McCann	13,485	–	–	–
J.R. Niland	10,122	–	–	–
H.M. Nugent	13,006	–	–	–
P.H. Warne	15,821	–	–	–

1 These share options were issued pursuant to the Macquarie Group Employee Share Option Plan and are subject to the exercise conditions applying to grants of options to Executive Directors, as described in note 36 – Employee equity participation. These figures include options which have vested but are unexercisable due to performance hurdles not being met.

2 These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in note 36 – Employee equity participation.

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

The relevant interests of Voting Directors as at 27 April 2012 in managed investment schemes made available by subsidiaries of Macquarie and other contracts that confer a right to call for or deliver shares in Macquarie are listed on page 89.

Directors' Report
for the financial year ended 31 March 2012
continued

Directors' and officers' indemnification and insurance

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

— every liability incurred by the person in their respective capacity

— all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which the person becomes involved because of their respective capacity, and

— legal costs incurred by the person in good faith in obtaining legal advice on issues relevant to the performance and discharge of their duties as an officer of Macquarie or of a wholly-owned subsidiary of Macquarie, if that has been approved in accordance with Macquarie policy.

This indemnity does not apply to the extent that:

— Macquarie is forbidden by law to indemnify the person against the liability or legal costs, or

— an indemnity by Macquarie of the person against the liability or legal costs, if given, would be made void by law.

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

— indemnify the Voting Director to the full extent of the indemnity given in relation to officers of Macquarie under its Constitution in force from time to time

— take out and maintain an insurance policy against liabilities incurred by the Voting Director acting as an officer of Macquarie or a wholly-owned subsidiary of Macquarie, or acting as an officer of another company at the specific request of Macquarie or a wholly-owned subsidiary of Macquarie. The insurance policy must be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie Group's position. The insurance policy must also be maintained for seven years after the Voting Director ceases to be a Voting Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings), and

— grant access to the Voting Director to all company papers (including Board papers and other documents).

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

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

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

Share options

Information on Macquarie Group's share option scheme, options granted and shares issued as a result of the exercise of options during or since the end of the financial year is contained in note 36 to the full financial report – Employee equity participation.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any other corporation. No unissued shares, other than those referred to in note 36, are under option as at the date of this report.

Directors' relevant interests

The relevant interests of Directors on 27 April 2012 in managed investment schemes made available by subsidiaries of Macquarie Group and other disclosable relevant interests are listed in the table below:

Name and position	Direct interests		Indirect interests	
Executive Voting Director				
N.W.Moore	2006 Macquarie ReFleXion Trusts units	5,000,000	Macquarie Global Infrastructure Fund III (B) units	362,382
	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				
D. J. Grady		–		–
M.J. Hawker		–	Macquarie Convertible Preference Securities	450
			Macquarie Wrap Cash Account (MWCA) units	150,705.38
P.M. Kirby		–	MQ Capital-Asia Trust units	175,000
			MQ Special Events Fund units	348,874
C.B. Livingstone		–		–
H.K. McCann		–		–
J.R. Niland		–		–
H.M. Nugent		–		–
P.H. Warne		–		–

Directors' Report
for the financial year ended 31 March 2012
continued

Environmental regulations

The Consolidated Entity has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, those obligations are identified and appropriately addressed.

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

Non-audit services

Details of the amounts paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), and its related practices for non-audit services provided during the year is disclosed in note 44 – Audit and other services provided by PricewaterhouseCoopers.

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

The BAC has reviewed a summary of non-audit services provided during the year by PwC and its related practices, and has confirmed that the provision of non-audit services 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 98/0100 (as amended), amounts in the full Financial Report have been rounded off to the nearest million dollars unless otherwise indicated.

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

H Kevin McCann, AM
Independent Director and Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
27 April 2012

Directors' Report Schedule 1
for the financial year ended 31 March 2012

Directors' experience and special responsibilities

H Kevin McCann AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 71)

Independent Chairman since 17 March 2011
Independent Voting Director since August 2007
Chairman – Board Nominating Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

Kevin McCann joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Mr McCann was appointed as an Independent Voting Director of Macquarie Bank Limited in December 1996 and continues to hold this position. He was appointed Chairman of Macquarie Group Limited and Macquarie Bank Limited Boards in March 2011. He is currently Chairman of Origin Energy Limited (since February 2000), a Director of BlueScope Steel Limited (since May 2002) and the United States Studies Centre at the University of Sydney, and a member of the University of Sydney Senate and the Evans and Partners Advisory Board. Mr McCann is also NSW President and a board member of the Australian Institute of Company Directors. Mr McCann was a Partner (from 1970 to 2004) and Chairman of Allens Arthur Robinson, a leading firm of Australian lawyers. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He was previously Chairman of Triako Resources Limited, Healthscope Limited and ING Management Limited (September 2010 to June 2011). Mr McCann is a resident of New South Wales.

Nicholas W Moore, BCom LLB (UNSW), FCA (age 53)

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

Nicholas Moore joined the Board of Macquarie Group Limited in February 2008 as an Executive Voting Director. Mr Moore was appointed as an Executive Voting Director of Macquarie Bank Limited in May 2008 and continues to hold this position. He 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. Currently, Mr Moore is Chairman of the Police and Community Youth Clubs NSW Limited, a Director of the Centre for Independent Studies and Chairman of the University of NSW Business School Advisory Council. Mr Moore is a resident of New South Wales.

Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD (age 63)

Independent Voting Director since May 2011
Member – Board Remuneration Committee
Member – Board Risk Committee

Diane Grady joined the Board of Macquarie Group Limited and Macquarie Bank Limited as an Independent Voting Director in May 2011. Ms Grady has been a full time independent director of public companies and not-for-profit boards since 1994. She is currently a Director of BlueScope Steel Limited (since May 2002), a member of the McKinsey Advisory Board, Chair of Ascham School and Chair of the Hunger Project Australia. Previously she was a Director of Woolworths Limited (July 1996 to November 2010), Goodman Group (September 2007 to October 2010), 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 and in 2001 received a Centenary Medal for service to Australian society through business leadership. Ms Grady is a resident of New South Wales.

Directors' Report Schedule 1
for the financial year ended 31 March 2012
continued

Michael J Hawker AM, BSc (Sydney), FAICD, FAIM, SF Fin (age 52)

Independent Voting Director since March 2010
Member – Board Audit Committee
Member – Board Risk Committee

Michael Hawker has been an Independent Voting Director of Macquarie Group and Macquarie Bank Limited since March 2010. He 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. Currently, Mr Hawker is the Chairman of the George Institute for Global Health, a member of the George Institute for Global Health (UK) and a Director of the Australian Rugby Union and Aviva Plc Group, the largest insurance provider in the UK. He is also a member of the Advisory Board to GEMS, a Hong Kong based private equity firm, and a member of the board of trustees of the Giant Steps Foundation. Mr Hawker was previously 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. Mr Hawker is additionally the founder of the Australian Business in the Community Network. Mr Hawker is a resident of the United Kingdom.

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 64)

Independent Voting Director since August 2007
Member – Board Audit Committee
Member – Board Governance and Compliance Committee
Member – Board Risk Committee

Peter Kirby joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Mr Kirby was appointed as an Independent Voting Director of Macquarie Bank Limited in June 2003 and he continues to hold this position. Mr Kirby was the Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003. He was a member of the Board of the Business Council of Australia from 2001 to 2003. Mr Kirby received the Centenary Medal in 2003. Prior to joining CSR, he was with the Imperial Chemical Industries PLC group (ICI) for 25 years in a variety of senior management positions around the world, including Chairman/CEO of ICI Paints, responsible for the group's coatings businesses worldwide, and a member of the Executive Board of ICI PLC, with responsibility for ICI Americas and the western hemisphere. He is Chairman of DuluxGroup Limited (since July 2010). Mr Kirby's previous directorships include Chairman and Director of Medibank Private Limited and Director of Orica Limited (from July 2003 to July 2010) and the Beacon Foundation. Mr Kirby is a resident of Victoria.

Catherine B Livingstone AO, BA (Hons) (Macquarie), HonDBus (Macquarie), HonDSc (Murdoch), FCA, FTSE, FAICD (age 56)

Independent Voting Director since August 2007
Chairman – Board Audit Committee
Member – Board Governance and Compliance Committee
Member – Board Nominating Committee
Member – Board Risk Committee

Catherine Livingstone joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Ms Livingstone was appointed as an Independent Voting Director of Macquarie Bank Limited in November 2003 and she continues to hold this position. 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. She is currently Chairman of Telstra Corporation Limited (Director since November 2000 and Chairman since May 2009), a Director of WorleyParsons Limited (since June 2007), a member of the New South Wales Innovation Council and President of the Australian Museum Trust. Ms Livingstone was also previously Chairman of CSIRO and a Director of Goodman Fielder and Rural Press Limited. Ms Livingstone is a resident of New South Wales.

John R Niland AC, BCom MCom HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 71)

Independent Voting Director since August 2007
Chairman – Board Governance and Compliance Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

John Niland joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Dr Niland was appointed as an Independent Voting Director of Macquarie Bank Limited in February 2003 and continues to hold this position. Dr Niland is a Professor Emeritus of the University of New South Wales (UNSW) and was Vice-Chancellor and President of UNSW from 1992 to 2002. Before that he was the Dean of the Faculty of Commerce and Economics. He is currently Chairman of Campus Living Funds Management Limited and Chairman of Singapore Management University's International Academic Review Panel. Dr Niland is a former Chief Executive of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority. He has served on the Australian Universities Council, the Prime Minister's Science, Engineering and Innovation Council, the boards of the Centennial Park and Moore Park Trust, realestate.com.au Limited, St Vincent's Hospital, the Sydney Symphony Orchestra Foundation, the Sydney Olympic bid's Building Commission and the University Grants Committee of Hong Kong. He is a former President of the National Trust of Australia (NSW). Dr Niland is a resident of New South Wales.

Helen M Nugent AO, BA (Hons)(Qld), PhD (Qld), MBA (Harv), HonDBus (Qld) (age 63)

Independent Voting Director since August 2007
Chairman – Board Remuneration Committee
Member – Board Nominating Committee
Member – Board Risk Committee

Helen Nugent joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Dr Nugent was appointed as an Independent Voting Director of Macquarie Bank Limited in June 1999 and continues to hold this position. She is currently Chairman of Funds SA and a Director of Origin Energy Limited (since March 2003) and Freehills. Previously, 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, she was previously Chairman of Hudson (Australia and New Zealand) and a Director of UNiTAB, Carter Holt Harvey and Australia Post. She has also been a Partner at McKinsey and Company.

She has been actively involved in the arts and education. In the arts, she is Chairman of the National Portrait Gallery and was formerly Deputy Chairman of the Australia Council, Chairman of the Major Performing Arts Board of the Australia Council, Chairman of the Ministerial Inquiry into the Major Performing Arts and Deputy Chairman of Opera Australia. In education, she is currently Chancellor of Bond University and President of Cranbrook School. Previously she was 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. Dr Nugent is a resident of New South Wales.

Peter H Warne, BA (Macquarie), FAICD (age 56)

Independent Voting Director since August 2007
Chairman – Board Risk Committee
Member – Board Audit Committee
Member – Board Governance and Compliance Committee
Member – Board Remuneration Committee

Peter Warne joined the Board of Macquarie Group Limited as an Independent Voting Director in August 2007. Mr Warne was appointed as an Independent Voting Director of Macquarie Bank Limited in July 2007 and continues to hold this position. Mr Warne was Head of Bankers Trust Australia Limited's (BTAL) Financial Markets Group from 1988 to 1999. Prior to this he held a number of roles at BTAL. He was a Director and Deputy Chairman of the Sydney Futures Exchange (SFE) from 1995 to 1999 and a Director from 2000 to 2006. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006 he became a Director of ASX Limited. Currently, Mr Warne is on the boards of other listed entities as Chairman of ALE Property Group (since September 2003) and Deputy Chairman of WHK Group Limited (Director since May 2007)

He is also Deputy Chairman of Capital Markets CRC Limited, a Director of Securities Research Centre of Asia Pacific Limited and of the New South Wales Treasury Corporation, a member of the Advisory Board of the Australian Office of Financial Management and a Patron of Macquarie University Foundation. He is a former Director of Next Financial Limited, Macquarie Capital Alliance Group and a former Chairman and Director of TEYS Limited (Director from October 2007 to June 2009 and Chairman from July 2008 to June 2009). Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience

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

Company Secretary since 12 October 2006

Dennis Leong is an Executive Director of Macquarie and Head of the Group's Company Secretarial Division, which is responsible for the Group's company secretarial requirements, professional risks and general insurances and employee equity plans. He has over 18 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 24 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 12 years experience as a solicitor. He joined Macquarie in April 2006, and was previously a Senior Associate at Mallesons Stephen Jaques with a general corporate advisory and corporate governance focus.

Directors' Report Schedule 2
Auditor's independence declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001 (Cth)* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
27 April 2012

Liability is limited by scheme approved under Professional Standards Legislation

Macquarie Group Limited
2012 Financial Report
Contents

The Financial Report was authorised for issue by the Directors on 27 April 2012.
The Consolidated Entity has the power to amend and reissue the Financial Report.

Income statements
for the financial year ended 31 March 2012

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Interest and similar income		**5,368**	5,304	**349**	521
Interest expense and similar charges		**(4,035)**	(4,029)	**(455)**	(593)
Net interest income/(expense)	2	**1,333**	1,275	**(106)**	(72)
Fee and commission income	2	**3,364**	3,891	**–**	–
Net trading income	2	**1,035**	1,389	**–**	–
Share of net profits of associates and joint ventures accounted for using the equity method	2	**108**	179	**–**	–
Other operating income and charges	2	**1,123**	931	**492**	635
Net operating income		**6,963**	7,665	**386**	563
Employment expenses	2	**(3,560)**	(3,890)	**(3)**	(3)
Brokerage, commission and trading-related expenses	2	**(724)**	(785)	**–**	–
Occupancy expenses	2	**(456)**	(483)	**–**	–
Non-salary technology expenses	2	**(290)**	(316)	**–**	–
Other operating expenses	2	**(884)**	(920)	**(13)**	(14)
Total operating expenses		**(5,914)**	(6,394)	**(16)**	(17)
Operating profit before income tax		**1,049**	1,271	**370**	546
Income tax (expense)/benefit	4	**(287)**	(282)	**45**	27
Profit after income tax		**762**	989	**415**	573
Profit attributable to non-controlling interests:					
Macquarie Income Securities	5	**(26)**	(26)	**–**	–
Macquarie Income Preferred Securities	5	**(4)**	(4)	**–**	–
Other non-controlling interests		**(2)**	(3)	**–**	–
Profit attributable to non-controlling interests		**(32)**	(33)	**–**	–
Profit attributable to ordinary equity holders of Macquarie Group Limited		**730**	956	**415**	573
		Cents per share			
Basic earnings per share	6	**210.1**	282.5		
Diluted earnings per share	6	**202.3**	275.9		

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

Statements of comprehensive income
for the financial year ended 31 March 2012

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Profit after income tax for the financial year		**762**	989	**415**	573
Other comprehensive (expense)/income:					
Available for sale investments, net of tax	32	**(262)**	256	**–**	–
Cash flow hedges, net of tax	32	**(10)**	2	**–**	–
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	32	**(14)**	27	**–**	–
Exchange differences on translation of foreign operations, net of tax		**40**	(503)	**–**	–
Total other comprehensive expense for the financial year		**(246)**	(218)	**–**	–
Total comprehensive income for the financial year		**516**	771	**415**	573
Total comprehensive income/(expense) for the financial year is attributable to:					
Ordinary equity holders of Macquarie Group Limited		**487**	741	**415**	573
Macquarie Income Securities holders		**26**	26	**–**	–
Macquarie Income Preferred Securities holders		**4**	–	**–**	–
Other non-controlling interests		**(1)**	4	**–**	–
Total comprehensive income for the financial year		**516**	771	**415**	573

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

Statements of financial position
as at 31 March 2012

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Assets					
Receivables from financial institutions	7	**10,912**	9,817	**–**	–
Cash collateral on securities borrowed and reverse repurchase agreements	8	**7,598**	8,790	**–**	–
Trading portfolio assets	9	**12,689**	14,898	**–**	–
Derivative assets		**22,078**	21,185	**–**	–
Investment securities available for sale	10	**18,266**	17,051	**–**	–
Other assets	11	**13,583**	12,646	**27**	3
Loan assets held at amortised cost	12	**45,218**	46,016	**–**	–
Other financial assets at fair value through profit or loss	14	**6,715**	11,668	**–**	–
Life investment contracts and other unitholder investment assets	15	**5,904**	5,059	**–**	–
Due from subsidiaries	34	**–**	–	**7,317**	9,530
Property, plant and equipment	16	**5,235**	5,007	**–**	–
Interests in associates and joint ventures accounted for using the equity method	17	**2,664**	2,790	**–**	–
Intangible assets	18	**1,351**	1,317	**–**	–
Investments in subsidiaries	19	**–**	–	**13,525**	13,605
Deferred tax assets	20	**1,279**	1,245	**309**	183
Non-current assets and assets of disposal groups classified as held for sale	21	**134**	79	**–**	–
Total assets		**153,626**	157,568	**21,178**	23,321
Liabilities					
Cash collateral on securities lent and repurchase agreements	22	**4,826**	6,617	**–**	–
Trading portfolio liabilities	23	**3,615**	5,808	**–**	–
Derivative liabilities		**21,022**	21,572	**–**	–
Deposits		**37,169**	35,338	**50**	52
Current tax liabilities		**105**	197	**–**	92
Other liabilities	24	**14,991**	14,327	**18**	–
Payables to financial institutions	25	**7,803**	7,810	**3,178**	4,451
Other financial liabilities at fair value through profit or loss	26	**2,733**	4,339	**–**	–
Life investment contracts and other unitholder liabilities		**5,897**	5,055	**–**	–
Due to subsidiaries	34	**–**	–	**1,072**	1,951
Debt issued at amortised cost	27	**39,713**	41,177	**4,459**	4,116
Provisions	28	**241**	215	**5**	3
Deferred tax liabilities	20	**436**	287	**–**	–
Total liabilities excluding loan capital		**138,551**	142,742	**8,782**	10,665
Loan capital					
Macquarie Convertible Preference Securities		**614**	595	**–**	–
Subordinated debt at amortised cost		**2,579**	1,832	**–**	–
Subordinated debt at fair value through profit or loss		**150**	467	**–**	–
Total loan capital	30	**3,343**	2,894	**–**	–
Total liabilities		**141,894**	145,636	**8,782**	10,665
Net assets		**11,732**	11,932	**12,396**	12,656

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Equity					
Contributed equity					
Ordinary share capital	31	**7,289**	7,140	**10,081**	9,944
Treasury shares	31	**(1,136)**	(731)	**(1,129)**	(726)
Exchangeable shares	31	**82**	104	**–**	–
Reserves	32	**44**	310	**766**	604
Retained earnings	32	**4,924**	4,581	**2,678**	2,834
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**11,203**	11,404	**12,396**	12,656
Non-controlling interests					
Macquarie Income Securities	32	**391**	391	**–**	–
Macquarie Income Preferred Securities	32	**63**	63	**–**	–
Other non-controlling interests	32	**75**	74	**–**	–
Total equity		**11,732**	11,932	**12,396**	12,656

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 2012

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Consolidated
Balance at 1 April 2010		6,684	280	4,268	11,232	537	11,769
Total comprehensive (expense)/income for the financial year		–	(215)	956	741	30	771
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	117	–	–	117	–	117
Issue of shares to MEREP Trust		(19)	–	–	(19)	–	(19)
Purchase of shares by MEREP Trust		(269)	–	–	(269)	–	(269)
Dividends paid or provided for	5	–	–	(643)	(643)	–	(643)
Non-controlling interests:							
Distributions of equity, net of transaction costs	32	–	–	–	–	(6)	(6)
Distributions paid or provided for		–	–	–	–	(33)	(33)
Other equity movements:							
Net movement on exchangeable shares	31	(33)	–	–	(33)	–	(33)
Share-based payments		33	245	–	278	–	278
		(171)	245	(643)	(569)	(39)	(608)
Balance at 31 March 2011		**6,513**	**310**	**4,581**	**11,404**	**528**	**11,932**
Total comprehensive (expense)/income for the financial year		**–**	**(243)**	**730**	**487**	**29**	**516**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	**70**	**–**	**–**	**70**	**–**	**70**
Purchase of shares by MEREP Trust		**(405)**	**–**	**–**	**(405)**	**–**	**(405)**
Dividends paid or provided for	5	**–**	**–**	**(572)**	**(572)**	**–**	**(572)**
Non-controlling interests:							
Distributions of equity, net of transaction costs	32	**–**	**–**	**–**	**–**	**4**	**4**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(32)**	**(32)**
Other equity movements:							
Net movement on exchangeable shares	31	**(22)**	**–**	**–**	**(22)**	**–**	**(22)**
Share-based payments		**79**	**162**	**–**	**241**	**–**	**241**
Transfer from share-based payments reserve to retained earnings	32	**–**	**(185)**	**185**	**–**	**–**	**–**
		(278)	**(23)**	**(387)**	**(688)**	**(28)**	**(716)**
Balance at 31 March 2012		**6,235**	**44**	**4,924**	**11,203**	**529**	**11,732**

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Company
Balance at 1 April 2010		9,368	359	2,902	12,629	–	12,629
Total comprehensive income for the financial year		–	–	573	573	–	573
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	105	–	–	105	–	105
Issue of shares to MEREP Trust	31	(19)	–	–	(19)	–	(19)
Purchase of shares by MEREP Trust		(269)	–	–	(269)	–	(269)
Dividends paid or provided for	5	–	–	(641)	(641)	–	(641)
Other equity movements:							
Share-based payments		33	245	–	278	–	278
		(150)	245	(641)	(546)	–	(546)
Balance at 31 March 2011		**9,218**	**604**	**2,834**	**12,656**	**–**	**12,656**
Total comprehensive income for the financial year		**–**	**–**	**415**	**415**	**–**	**415**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	**58**	**–**	**–**	**58**	**–**	**58**
Purchase of shares by MEREP Trust		**(403)**	**–**	**–**	**(403)**	**–**	**(403)**
Dividends paid or provided for	5	**–**	**–**	**(571)**	**(571)**	**–**	**(571)**
Other equity movements:							
Share-based payments		**79**	**162**	**–**	**241**	**–**	**241**
		(266)	**162**	**(571)**	**(675)**	**–**	**(675)**
Balance at 31 March 2012		**8,952**	**766**	**2,678**	**12,396**	**–**	**12,396**

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 2012

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Cash flows from operating activities					
Interest received		**5,370**	5,097	**349**	521
Interest and other costs of finance paid		**(4,037)**	(4,060)	**(493)**	(594)
Dividends and distributions received		**547**	366	**492**	635
Fees and other non-interest income received		**3,963**	4,855	**–**	–
Fees and commissions paid		**(653)**	(771)	**–**	–
Net receipts from/(payments for) trading portfolio assets and other financial assets/liabilities		**2,680**	(3,857)	**–**	–
Payments to suppliers		**(1,177)**	(1,489)	**(10)**	(8)
Employment expenses paid		**(3,535)**	(3,724)	**(3)**	(3)
Income tax paid		**(315)**	(204)	**(105)**	(21)
Life investment contract income		**359**	126	**–**	–
Life investment contract premiums received and other unitholder contributions		**3,287**	2,575	**–**	–
Life investment contract payments		**(3,282)**	(2,411)	**–**	–
Net loan assets repaid/(granted)		**712**	(1,550)	**2,223**	2,548
Loan facility repaid to a subsidiary		**–**	–	**(737)**	(512)
Recovery of loans previously written off		**22**	12	**–**	–
Net increase/(decrease) in amounts due to other financial institutions, deposits and other borrowings		**471**	7,414	**(894)**	(1,513)
Net cash flows from operating activities	33	**4,412**	2,379	**822**	1,053
Cash flows from investing activities					
Net payments for investment securities available for sale		**(284)**	(721)	**–**	–
Proceeds/(payments) for the acquisition and disposal of associates		**3**	(276)	**–**	–
Proceeds/(payments) for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired		**5**	(22)	**–**	–
(Payments for)/proceeds from the acquisition of subsidiaries, excluding disposal groups, net of cash acquired		**(451)**	1,378	**–**	–
Proceeds from the disposal of subsidiaries and businesses excluding disposal groups, net of cash deconsolidated		**112**	92	**–**	–
Payments for life investment contracts and other unitholder investment assets		**(7,678)**	(6,371)	**–**	–
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**7,386**	6,145	**–**	–
Payments for property, plant and equipment, leased assets, and intangible assets		**(502)**	(2,130)	**–**	–
Proceeds from the sale of management rights		**–**	14	**–**	–
Injection of capital to a subsidiary		**–**	–	**(700)**	(770)
Return of capital from a subsidiary		**–**	–	**800**	550
Net cash flows (used in)/from investing activities		**(1,409)**	(1,891)	**100**	(220)

	Notes	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**1**	1	**1**	1
Payments to non-controlling interests		**(3)**	(4)	**–**	–
Net proceeds from issue of subordinated debt		**459**	932	**–**	–
Dividends and distributions paid		**(552)**	(598)	**(520)**	(565)
Financing of treasury shares		**(403)**	(269)	**(403)**	(269)
Net cash flows (used in)/from financing activities		**(498)**	62	**(922)**	(833)
Net increase in cash and cash equivalents		**2,505**	550	**–**	–
Cash and cash equivalents at the beginning of the financial year		**12,323**	11,773	**–**	–
Cash and cash equivalents at the end of the financial year	33	**14,828**	12,323	**–**	–

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 2012
continued

Note 1
Summary of significant accounting policies

(i) Basis of preparation

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

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

Compliance with IFRS as issued by the IASB

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

Historical cost convention

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

Critical accounting estimates and significant judgements

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

- fair value of financial assets and liabilities (note 43);
- impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures and held for sale investments (notes 1(xii), 1(xiii), 13 and 41.1);
- acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 1(ii), 1(xii), 17, 21 and 45);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of Special Purpose Entities (SPEs) (notes 1(ii), 12 and 27);
- 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 20); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvi) and 18).

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 2010-3 and AASB 2010-4 *Amendments to Australian Accounting Standards* arising from the Annual Improvements Project were issued in June 2010 and became applicable in the current financial year.

AASB 2010-3 amendments confirm that:

- contingent consideration arising in a business combination that had been accounted for in accordance with AASB 3 (2004) that has not been settled or otherwise resolved at the adoption date of AASB 3 (2008) continues to be accounted for in accordance with AASB 3 (2004);
- the accounting policy choice to measure non-controlling interests (NCI) upon initial recognition either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets is limited to instruments that give rise to a present ownership interest and which currently entitle the holder to a share of net assets in the event of liquidation. The accounting policy choice does not apply to other instruments, such as written options classified as equity instruments or options granted under share-based payment arrangements – these are generally measured at fair value or otherwise in accordance with the relevant Standards;
- AASB 3 (2008) application guidance applies to unreplaced and voluntarily replaced share-based payment awards; and
- consequential amendments to AASB 121, AASB 128 and AASB 131 as a result of the issue of AASB 127 (2008) relating to disposals of all or part of a foreign operation and accounting for a loss of significant influence/joint control is applied prospectively.

AASB 2010-4 makes amendments to various disclosure requirements relating to AASB 7 *Financial Instruments: Disclosures*, AASB 101 *Presentation of Financial Statements* and AASB 134 *Interim Financial Reporting*.

The application of these amendments in the current year has had an immaterial impact.

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

When a new Accounting Standard is first adopted, any change in accounting policy is accounted for in accordance with the specific transitional provisions (if any), otherwise retrospectively.

The Company's and Consolidated Entity's assessment of the impact of the key new Accounting Standards and Interpretations and amendments to Accounting Standards is set out below:

AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*

AASB 2010-6 was issued by the AASB in November 2010 and is effective for annual reporting periods beginning on or after 1 July 2011. The Standard adds and amends disclosure requirements about transfers of financial assets. The standard requires disclosures to be made of transfers of financial assets that are either not derecognised in their entirety, or for which a continuing involvement is retained. The Consolidated Entity will first apply the Standard in the financial year beginning 1 April 2012. Comparative information is not required.

Whilst the new standard will not affect any of the amounts recognised in the financial statements, it will increase disclosures of transferred assets.

AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9*

In December 2010, the AASB re-issued AASB 9 *Financial Instruments*, which is effective for annual reporting periods beginning on or after 1 January 2015. Early adoption is permitted if all the requirements are applied at the same time. The revised AASB 9 includes the classification and measurement requirements for financial liabilities, and the recognition and derecognition requirements for financial instruments, in addition to the classification and measurement requirements for financial assets that appeared in the December 2009 version of the Standard.

Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value.

Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in 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, rather than OCI, 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. The Consolidated Entity is currently assessing the impact of the new Standard, and it is likely that some financial assets:

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

In respect of financial liabilities, the change in fair value (for financial liabilities designated at fair value through profit or loss) due to changes in an entity's own credit risk is to be presented in OCI, unless such presentation would create an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of changes in the credit risk of the liability) are presented in the income statement. All other key requirements for classification and measurement of financial liabilities have been carried forward unamended from AASB 139 *Financial Instruments: Recognition and Measurement*. The recognition and derecognition requirements in AASB 139 have also been retained and relocated to the revised AASB 9 unamended. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2015. The impact of AASB 9 on the Consolidated Entity's financial statements on initial application has not yet been assessed.

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

The AASB has decided to remove the individual Key Management Personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments are effective for annual reporting periods on or after 1 July 2013 and cannot be adopted early.

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

The amendment requires items in other comprehensive income to be segregated into two categories, based on whether they may be recycled to income statement in the future. Items that will never recycle (such as revaluation reserve) will be presented separately from items that may recycle in the future (such as cash flow hedge reserves and the foreign currency translation reserve). The amendments are effective for annual periods beginning on or after 1 July 2012.

AASB 10 *Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities and revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures*

The AASB has issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

These new standards are effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis. Early adoption is permitted, however these standards must be adopted as a package, that is, all as of the same date, except that an entity may early adopt the disclosure provisions for AASB 12 (without adopting the other new standards). The Consolidated Entity currently intends to first apply these Standards in the financial year beginning 1 April 2013.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1
Summary of significant accounting policies continued

(i) Basis of preparation continued

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. However 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. There is also new guidance on participating and protective rights, de-facto control and on agent versus principal relationships. The impact of AASB 10 on the Consolidated Entity's financial statements on initial application is being assessed.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account 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. The impact of AASB 11 on the Consolidated Entity's financial statements on initial application is being assessed.

AASB 12 sets out the required disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. Application of this standard by the Consolidated Entity will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Consolidated Entity's investments. Systems may need to be developed to capture all the necessary information.

Whilst the new standard will not affect any of the amounts recognised in the financial statements, it will require additional disclosures of interests in subsidiaries, associates, joint ventures and unconsolidated structured entities.

AASB 127 is renamed *Separate Financial Statements* and now deals solely with separate financial statements. Initial application of this standard by the Consolidated Entity and the Company is not expected to result in any material impact.

Amendments to **AASB 128** clarify 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 part of an associate or joint venture is to be sold, an entity accounts for the part to be sold under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, and continues to apply the equity method on the retained portion until the portion held for sale is sold. The Consolidated Entity is still assessing the impact of these amendments, although it is not expected to result in any material impact.

AASB 13 Fair Value Measurement

AASB 13 has been issued by the AASB and is effective for annual reporting periods beginning on or after 1 January 2013.

AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. The impact of AASB 13 on the Consolidated Entity's financial statements on initial application has not yet been assessed.

The Consolidated Entity intends to first apply the Standard prospectively from 1 April 2013.

(ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including SPEs) over which the Company has the power to govern (directly or indirectly) decision-making in relation to financial and operating policies, so as to require that entity to conform to the Company's objectives. The effects of all transactions between entities in the Consolidated Entity are eliminated in full. NCI in the results and equity of subsidiaries, where the Company owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

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

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

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

Impairment of subsidiaries

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

Securitisations

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

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

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

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

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method except those which are classified as held for sale (see note 1(xii)). The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statement, and its share of post-acquisition movements in reserves.

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

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

(iii) Business combinations

The purchase method of accounting is used to account for all business combinations (excepting business combinations involving entities or businesses under common control) which occurred before 1 April 2010. From 1 April 2010, business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the date of exchange) of assets 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 value on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure any NCI either at fair value or at the NCI's proportionate share of the fair value of the identifiable assets and liabilities. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration given in business combinations occurring from 1 April 2010, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statement.

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

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.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1
Summary of significant accounting policies continued

(iv) Segment reporting

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

(v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Subsidiaries and other entities

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

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

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

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

(vi) Revenue recognition

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

Interest income

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

Fee and commission income

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

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

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

Net trading income

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

Dividends and distributions

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

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

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

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

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

Tax consolidation

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

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

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

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1
Summary of significant accounting policies continued

(ix) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see note 43). Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

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

(x) Derivative instruments

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

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently 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 carrying amounts of derivatives are recognised in the income statement in net trading income, unless the derivative meets the requirements for hedge accounting.

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

(xi) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in note 40. Movements in the cash flow hedging reserve in equity are shown in note 32.

(xii) Investments and other financial assets

With the exception of trading portfolio assets, derivatives and investments in associates and joint ventures, which are classified separately in the statement of financial position, the remaining investments in financial assets are classified into the following categories: loans and receivables (loan assets held at amortised cost and amounts due from subsidiaries), other financial assets at fair value through profit or loss, investment securities available for sale and non-current assets and assets of disposal groups classified as held for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except for other financial assets at fair value through profit or loss, is re-evaluated at each balance date.

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

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

Investment securities available for sale

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

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

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

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

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

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

Non-current assets and disposal groups classified as held for sale are presented separately on the face of the statement of financial position.

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

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

(xiii) Impairment

Loan assets held at amortised cost

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

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 the reporting period.

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

Investment securities available for sale

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

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

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1
Summary of significant accounting policies continued

(xiii) Impairment continued

Investment securities available for sale continued

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

Investment assets

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

Restriction on assets

Investments held in the Life Funds can only be used within the restrictions imposed under the *Life Insurance Act 1995 (Cth)*. 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 (Cth)* 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:

Furniture and fittings	10 to 20 per cent
Leasehold improvements[1]	20 per cent
Communication equipment	33 per cent
Computer equipment	33 to 50 per cent
Infrastructure assets	5 to 20 per cent
Aviation	3 to 4 per cent
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 cost of an acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill arising from business combinations is included in intangible assets on the face of the statement of financial position. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates.

Other identifiable intangible assets

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

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

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

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

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

Software

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

Impairment

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

(xvii) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

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

(xviii) Provisions

Employee benefits

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

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

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

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

Dividends

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

(xix) Earnings per share

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 1
Summary of significant accounting policies continued

(xx) Performance based remuneration

Share-based payments

The Consolidated Entity operates share-based compensation plans, which include options granted to employees and shares (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in note 36. The Consolidated Entity recognises an expense (and equity reserve) for its shares and options granted to employees. The shares and options are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

Performance hurdles attached to options, and Performance Share Units (PSUs) under the MEREP, that are issued to the Executive 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 two financial years.

In December 2009, the Consolidated Entity established a new equity plan, 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 2011. The fair value of each of these grants is estimated using the Company's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- risk free interest rate: 5.71 per cent (weighted average);
- expected life of PSU: four years; and
- dividend yield: 5.20 per cent per annum.

While RSUs, DSUs, and PSUs for Executive Committee members, in respect of the current year's performance will be granted in the following financial year, the Consolidated Entity begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using the Company's share price as at 31 March 2012 (and for PSUs, also incorporates a risk free interest rate of 5.71 per cent; an expected life of four years; and a dividend yield of 5.20 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU/DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

Executive Directors' retained profit share that is no longer to be paid in cash is reversed in the current year and recognised in profit, and the equity granted is accounted for as a share-based payment from the grant date.

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

Profit share remuneration

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

(xxi) Cash and cash equivalents

Cash and cash equivalents comprise:

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

(xxii) Leases

Where finance leases are granted to third parties, the present value of the lease receipts is recognised as a receivable and included in loan assets held at amortised cost. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using 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 Company and Consolidated Entity as lessee are primarily operating leases. The total fixed payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Purchased assets, where the Consolidated Entity is the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 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.

(xxiii) Offsetting financial instruments

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

(xxiv) Loan capital

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

(xxv) Contributed equity

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

(xxvi) Changes in ownership interests

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. For acquisitions occurring on or before 31 March 2010, previously held interests were not revalued for such transactions.

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. For acquisitions occurring on or before 31 March 2010, retained ownership interests were not revalued for such transactions.

When increasing or decreasing the ownership interests of a subsidiary that remains a subsidiary afterwards, the consideration exchanged is recognised directly in equity. For acquisitions occurring on or before 31 March 2010, transactions with NCI were recognised using the parent-entity approach, which resulted in a gain recognised in the income statement when securities held by NCI were acquired by the Consolidated Entity at a price less than their carrying amount.

(xxvii) Comparatives

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

(xxviii) Rounding of amounts

The Company is of a kind referred to in *ASIC Class Order 98/0100* (as amended), relating to the rounding off of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 2
Profit for the financial year

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Net interest income				
Interest and similar income received/receivable	**5,368**	5,304	**349**	521
Interest expense and similar charges paid/payable	**(4,035)**	(4,029)	**(455)**	(593)
Net interest income/(expense)	**1,333**	1,275	**(106)**	(72)
Fee and commission income				
Base fees	**938**	950	**–**	–
Performance fees	**130**	36	**–**	–
Mergers and acquisitions, advisory and underwriting fees	**682**	931	**–**	–
Brokerage and commissions	**910**	1,137	**–**	–
Other fee and commission income	**633**	754	**–**	–
Income from life investment contracts and other unitholder investment assets (note 15)	**71**	83	**–**	–
Total fee and commission income	**3,364**	3,891	**–**	–
Net trading income[1]				
Equities	**218**	413	**–**	–
Commodities	**556**	553	**–**	–
Foreign exchange products	**285**	192	**–**	–
Interest rate products	**(24)**	231	**–**	–
Net trading income	**1,035**	1,389	**–**	–
Share of net profits of associates and joint ventures accounted for using the equity method	**108**	179	**–**	–

[1] Included in net trading income are fair value gains of $367 million (2011: $259 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met – refer to note 1(xi) – Summary of significant accounting policies.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 2

Profit for the financial year continued

Other operating income and charges				
Net gains on sale of investment securities available for sale	**131**	229	**–**	–
Impairment charge on investment securities available for sale	**(82)**	(38)	**–**	–
Net gains on sale of associates (including associates held for sale) and joint ventures	**108**	19	**–**	–
Impairment charge on investments in associates and joint ventures[1]	**(119)**	(69)	**–**	–
Impairment charge on associates and disposal groups held for sale	**(9)**	(16)	**–**	–
Gain on acquiring, disposing and change in ownership interest in subsidiaries	**35**	96	**–**	–
Gain on re-measurement of retained investments[2]	**66**	129	**–**	–
Impairment charge on non-financial assets	**(56)**	(7)	**–**	–
Gain on sale of non-financial assets	**104**	13	**–**	–
Sale of management rights	**–**	14	**–**	–
Net operating lease income[3]	**390**	243	**–**	–
Dividends/distributions received/receivable:				
Investment securities available for sale	**443**	126	**–**	–
Subsidiaries (note 34)	**–**	–	**492**	635
Collective allowance for credit losses (provided for)/written back during the financial year (note 12)	**(13)**	5	**–**	–
Individually assessed provisions:				
Loan assets provided for during the financial year (note 12)	**(103)**	(94)	**–**	–
Other receivables provided for during the financial year	**(35)**	(9)	**–**	–
Recovery of loans previously provided for (note 12)	**30**	16	**–**	–
Recovery of other receivables previously provided for	**–**	13	**–**	–
Loan losses written off	**(80)**	(71)	**–**	–
Recovery of loans previously written off	**22**	12	**–**	–
Other income	**291**	320	**–**	–
Total other operating income and charges	**1,123**	931	**492**	635
Net operating income	**6,963**	7,665	**386**	563

[1] Includes impairment reversals of $37 million (2011: $10 million).

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

[3] Includes rental income of $649 million (2011: $401 million) less depreciation of $259 million (2011: $158 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 2012
continued

Note 2
Profit for the financial year continued

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(3,035)**	(3,269)	**(3)**	(3)
Share-based payments	**(274)**	(306)	**–**	–
Provision for annual leave	**(23)**	(29)	**–**	–
Provision for long service leave	**(3)**	(8)	**–**	–
Total compensation expense	**(3,335)**	(3,612)	**(3)**	(3)
Other employment expenses including on-costs, staff procurement and staff training	**(225)**	(278)	**–**	–
Total employment expenses	**(3,560)**	(3,890)	**(3)**	(3)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	**(579)**	(583)	**–**	–
Other fee and commission expenses	**(145)**	(202)	**–**	–
Total brokerage, commission and trading-related expenses	**(724)**	(785)	**–**	–
Occupancy expenses				
Operating lease rentals	**(260)**	(295)	**–**	–
Depreciation: furniture, fittings and leasehold improvements (note 16)	**(114)**	(118)	**–**	–
Other occupancy expenses	**(82)**	(70)	**–**	–
Total occupancy expenses	**(456)**	(483)	**–**	–
Non-salary technology expenses				
Information services	**(138)**	(145)	**–**	–
Depreciation: computer equipment (note 16)	**(49)**	(50)	**–**	–
Other non-salary technology expenses	**(103)**	(121)	**–**	–
Total non-salary technology expenses	**(290)**	(316)	**–**	–
Other operating expenses				
Professional fees	**(251)**	(276)	**–**	–
Auditor's remuneration (note 44)	**(23)**	(20)	**–**	–
Travel and entertainment expenses	**(157)**	(184)	**–**	–
Advertising and promotional expenses	**(66)**	(72)	**–**	–
Communication expenses	**(41)**	(49)	**–**	–
Amortisation of intangibles	**(86)**	(74)	**–**	–
Depreciation: communication equipment (note 16)	**(5)**	(6)	**–**	–
Other expenses	**(255)**	(239)	**(13)**	(14)
Total other operating expenses	**(884)**	(920)	**(13)**	(14)
Total operating expenses	**(5,914)**	(6,394)	**(16)**	(17)

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into six operating groups, one operating division and a corporate group. These segments have been set up based on the different core products and services offered.

Since 31 March 2011, there have been a number of 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. In addition, certain assets not aligned with any of the Operating Groups were transferred to the Corporate segment, including the investment in Sydney Airport.

These restructures are effective from 1 April 2011. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

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

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

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

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

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

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

Real Estate Banking Division activities include real estate investment, development management and asset management.

Corporate includes Group Treasury, head office and central support functions. It holds certain central investments. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility and income tax expense. Corporate is not considered an operating group.

Any transfers between segments are determined on an arm's length basis and eliminate on consolidation.

Notes to the financial statements
for the financial year ended 31 March 2012
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
Revenues from external customers	**1,843**	**1,984**	**2,238**
Inter-segmental (expense)/revenue[1]	**(173)**	**(585)**	**1,288**
Interest revenue	**332**	**1,613**	**1,396**
Interest expense	**(47)**	**(264)**	**(1,988)**
Depreciation and amortisation	**(20)**	**(262)**	**(21)**
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(12)**	**5**	**(1)**
Reportable segment profit/(loss)	**655**	**698**	**265**
Reportable segment assets	**12,584**	**21,768**	**27,132**
Revenues from external customers	1,667	1,657	2,417
Inter-segmental (expense)/revenue[1]	(168)	(549)	853
Interest revenue	304	1,453	1,476
Interest expense	(57)	(213)	(1,658)
Depreciation and amortisation	(26)	(145)	(37)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	67	24	1
Reportable segment profit/(loss)	482	574	275
Reportable segment assets	12,380	20,662	27,722

[1] Internal reporting systems do not enable the separation of inter-segmental (expense)/revenue. The net position is disclosed above. The key inter-segmental item is internal interest and funding costs charged to businesses for funding of their business net assets.

Macquarie Securities Group $m	Macquarie Capital $m	Fixed Income, Currencies and Commodities $m	Real Estate Banking Division $m	Corporate $m	Total $m
					Consolidated 2012
1,057	**903**	**2,054**	**29**	**1,503**	**11,611**
(13)	**(251)**	**(363)**	**(21)**	**118**	**–**
241	**68**	**649**	**16**	**1,053**	**5,368**
(150)	**(19)**	**(262)**	**(1)**	**(1,304)**	**(4,035)**
(21)	**(38)**	**(42)**	**–**	**(109)**	**(513)**
–	**80**	**19**	**14**	**3**	**108**
(194)	**85**	**539**	**(36)**	**(1,282)**	**730**
22,442	**3,540**	**42,092**	**221**	**23,847**	**153,626**
					Consolidated 2011
1,445	1,150	1,984	85	1,619	12,024
12	(228)	(225)	(37)	342	–
250	24	652	16	1,129	5,304
(127)	(39)	(362)	–	(1,573)	(4,029)
(10)	(55)	(20)	–	(113)	(406)
1	55	15	(5)	21	179
184	214	575	(42)	(1,306)	956
25,583	2,904	43,154	448	24,715	157,568

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 3
Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2012
Revenues from external customers	**2,420**	**3,658**	**1,735**	**3,798**	**11,611**
					Consolidated 2011
Revenues from external customers	2,394	3,478	2,494	3,658	12,024

(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 2012
Australia	**6,083**	**1,822**
Asia Pacific	**650**	**479**
Europe, Middle East and Africa	**1,889**	**4,294**
Americas	**2,989**	**3,015**
Total	**11,611**	**9,610**
		Consolidated 2011
Australia	6,467	2,194
Asia Pacific	928	178
Europe, Middle East and Africa	1,906	4,361
Americas	2,723	2,887
Total	12,024	9,620

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

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 4
Income tax expense

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
(i) Income tax (expense)/benefit				
Current tax (expense)/benefit	**(14)**	(379)	**57**	(100)
Deferred tax (expense)/benefit	**(273)**	97	**(12)**	127
Total	**(287)**	(282)	**45**	27
Deferred tax (expense)/benefit included in income tax (expense)/benefit comprises:				
(Decrease)/increase in deferred tax assets	**(14)**	30	**(12)**	127
(Increase)/decrease in deferred tax liabilities	**(259)**	67	**–**	–
Total	**(273)**	97	**(12)**	127
(ii) Numerical reconciliation of income tax expense to prima facie tax payable				
Prima facie income tax expense on operating profit[1]	**(315)**	(381)	**(111)**	(164)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	**86**	174	**2**	2
Distribution provided on Macquarie Income Preferred Securities and related distributions	**1**	1	**–**	–
Share-based payments expense	**(19)**	(22)	**–**	(1)
Other items	**(40)**	(54)	**6**	–
Intra-group dividend	**–**	–	**148**	190
Total income tax (expense)/benefit	**(287)**	(282)	**45**	27
(iii) Tax benefit/(expense) relating to items of other comprehensive income				
Available for sale reserves	**102**	(104)	**–**	–
Cash flow hedges	**4**	(3)	**–**	–
Foreign currency translation reserve	**48**	91	**–**	–
Share of other comprehensive income of associates and joint ventures	**5**	(12)	**–**	–
Total tax benefit/(expense) relating to items of other comprehensive income	**159**	(28)	**–**	–

[1] Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2011: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

Revenue authorities undertake risk reviews and audits as part of their normal activities. The Group has assessed these and other taxation claims and litigation, including seeking advice where appropriate, and considers that it holds appropriate provisions.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 5
Dividends and distributions paid or provided for

(i) Dividends paid or provided for

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Ordinary share capital and exchangeable shares				
Interim dividend paid ($0.65 (2011: $0.86) per share)[1]	**224**	296	**224**	295
2011 final dividend paid ($1.00 (2010: $1.00) per share)[2]	**346**	344	**345**	343
Dividends provided for[3]	**2**	3	**2**	3
Total dividends paid or provided for (note 32)	**572**	643	**571**	641

[1] Interim dividend paid by the Consolidated Entity includes $nil (2011: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. as described in note 31 – Contributed equity.

[2] Final dividend paid by the Consolidated Entity includes $1 million (2011: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. as described in note 31 – Contributed equity.

[3] Dividends provided for by the Consolidated Entity relates to the dividend on the exchangeable shares issued as consideration for the acquisition of Tristone Capital Global Inc. as described in note 31 – Contributed equity.

The final dividend paid during the financial year was unfranked (full year to 31 March 2011: unfranked). The interim dividend paid during the financial year was unfranked (half year to 31 March 2011: unfranked). The dividends paid to holders of exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains activated. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares, without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of fully paid ordinary shares issued pursuant to the DRP are included in note 31 – Contributed equity.

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

Since the end of the financial year, the Directors have recommended the payment of the 2012 final dividend of $0.75 per fully paid ordinary share, unfranked. The aggregate amount of the proposed dividend expected to be paid on 2 July 2012 from retained profits at 31 March 2012, but not recognised as a liability at the end of the financial year, is $263 million (including $1 million to be paid by a subsidiary to the holders of the exchangeable shares (refer to note 31 – Contributed equity for further details of these instruments)). This amount has been estimated based on the number of shares eligible to participate as at 31 March 2012.

	Consolidated 2012	Consolidated 2011	Company 2012	Company 2011
			Dividend per ordinary share	
Cash dividends per ordinary share (distribution of current year profits)	**$1.40**	$1.86	**$1.40**	$1.86

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Franking credits available for the subsequent financial year at a corporate tax rate of 30 per cent (2011: 30 per cent)	**75**	49	**75**	49

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of income tax payable as at the end of the financial year, and
- franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Macquarie Income Securities				
Distributions paid (net of distributions previously provided for)	21	20	–	–
Distributions provided for	5	6	–	–
Total distributions paid or provided for	26	26	–	–

The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Accordingly, the distributions paid or provided for in respect of the MIS are recorded as movements in NCI, as disclosed in note 32 – Reserves, retained earnings and non-controlling interests. No dividends are payable under the preference shares until Macquarie Bank Limited (MBL), a subsidiary, exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion. Refer to note 32 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided for)	2	2	–	–
Distributions provided for	2	2	–	–
Total distributions paid or provided for (note 32)	4	4	–	–

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Accordingly, the distributions paid or provided for in respect of the MIPS are recorded as movements in NCI, as disclosed in note 32 – Reserves, retained earnings and non-control interests. MBL can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at MBL's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 32 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

Note 6

Earnings per share

	Consolidated 2012	Consolidated 2011
	Cents per share	
Basic earnings per share	210.1	282.5
Diluted earnings per share	202.3	275.9
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	$m	$m
Profit after income tax	762	989
Profit attributable to non-controlling interests:		
Macquarie Income Securities	(26)	(26)
Macquarie Income Preferred Securities	(4)	(4)
Other non-controlling interests	(2)	(3)
Total profit attributable to ordinary equity holders of Macquarie Group Limited (MGL)	730	956
Less profit attributable to participating unvested MEREP awards	(43)	–
Total earnings used in the calculation of basic earnings per share	687	956
Add back adjusted interest expense on Exchangeable Capital Securities	–	–
Add back adjusted interest expense on Macquarie Convertible Preference Securities[1]	–	35
Total earnings used in the calculation of diluted earnings per share	687	991

[1] Macquarie Convertible Preference Securities were not dilutive as at 31 March 2012 on the basis of share prices prevailing at that time.

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Note 6
Earnings per share continued

	Consolidated 2012	Consolidated 2011
	Number of shares	
Total weighted average number of externally held ordinary shares used in the calculation of basic earnings per share	**327,014,737**	338,359,374
Weighted average number of shares used in the calculation of diluted earnings per share		
Weighted average fully paid externally held ordinary shares	**327,014,737**	338,359,374
Potential ordinary shares:		
Weighted average options	**17,174**	158,315
Weighted average unvested MEREP awards	**12,242,186**	3,717,229
Weighted average retention securities and options	**140,632**	205,609
Weighted average Exchangeable Capital Securities	**119,270**	–
Weighted average Macquarie Convertible Preference Securities[1]	**–**	16,808,205
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**339,533,999**	359,248,732

[1] Macquarie Convertible Preference Securities were not dilutive as at 31 March 2012 on the basis of share prices prevailing at that time.

Options

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

Included in the balance of weighted average options are 1,402 (2011: 21,720) options that were converted, lapsed or cancelled during the period. There are a further 19,753,127 (2011: 30,452,745) options that have not been included in the balance of weighted average options on the basis that their adjusted exercise price was greater than the average market price of the Company's fully paid ordinary shares for the financial year ended 31 March 2012 and consequently, they are not considered to be dilutive.

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

Macquarie Group Employee Retained Equity Plan

In December 2009 MGL shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP).

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

Unvested MEREP awards are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. Included in the balance of weighted average MEREP awards are 1,193,335 (2011: 469,059) MEREP awards that were vested, lapsed or cancelled during the period. As at 31 March 2012, a further 935,794 (2011: 3,847,042) MEREP awards have not been included in the balance of weighted average MEREP awards on the basis that they are not considered to be dilutive.

Exchangeable shares

The exchangeable shares on issue (refer to note 31 – Contributed equity) are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of issue.

Retention securities and options

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

Exchangeable Capital Securities

Exchangeable Capital Securities (ECS) (refer to note 30 – Loan capital) have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings per share.

Macquarie Convertible Preference Securities

Macquarie Convertible Preference Securities (Macquarie CPS) (refer to note 30 – Loan capital) have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings per share.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 7

Receivables from financial institutions

Cash at bank[1]	**10,062**	8,417	**–**	–
Other loans to banks	**757**	1,155	**–**	–
Due from clearing houses	**93**	245	**–**	–
Total receivables from financial institutions	**10,912**	9,817	**–**	–

[1] Included within this balance is $39 million (2011: $143 million) provided as security over payables 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.

Note 8

Cash collateral on securities borrowed and reverse repurchase agreements

Governments[1]	**–**	43	**–**	–
Financial institutions	**7,591**	8,691	**–**	–
Other	**7**	56	**–**	–
Total cash collateral on securities borrowed and reverse repurchase agreements	**7,598**	8,790	**–**	–

[1] Governments include federal, state and local governments and related enterprises.

The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2012 is $7,946 million (2011: $9,038 million). Under certain transactions, the Consolidated Entity is allowed to resell or repledge the collateral held.

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

Note 9

Trading portfolio assets

Equities[1]				
Listed	**5,598**	6,771	**–**	–
Unlisted	**36**	71	**–**	–
Corporate bonds[2]	**2,073**	2,915	**–**	–
Commodities	**2,010**	2,002	**–**	–
Foreign government bonds[1]	**1,345**	517	**–**	–
Other government securities[3]	**1,094**	197	**–**	–
Promissory notes	**235**	508	**–**	–
Treasury notes	**223**	58	**–**	–
Bank bills	**36**	40	**–**	–
Commonwealth government bonds[1]	**31**	1,818	**–**	–
Certificates of deposit[1]	**8**	1	**–**	–
Total trading portfolio assets[4]	**12,689**	14,898	**–**	–

[1] Included within these balances are assets provided as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is $nil (2011: $8 million).

[2] Included within this balance are debt securities of $512 million (2011: $nil). These are recognised as the result of total return swaps used in conjunction with the transfer of the debt securities and the transfer not meeting the derecognition test of AASB 139 *Financial Instruments: Recognition and Measurement*. The Consolidated Entity does not have legal right to these assets but has full economic exposure to them.

[3] Other government securities include state and local governments and related enterprises, predominantly in Australia.

[4] Included within this balance are trading assets of $2,014 million (2011: $3,779 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

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

Notes to the financial statements
for the financial year ended 31 March 2012
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	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 10
Investment securities available for sale

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Equity securities				
Listed[1]	**1,724**	1,969	**–**	–
Unlisted	**732**	572	**–**	–
Debt securities[2, 3, 4]	**15,810**	14,510	**–**	–
Total investment securities available for sale[5]	**18,266**	17,051	**–**	–

[1] Included within this balance is $2 million (2011: $2 million) provided as security over payables to other financial institutions.

[2] Included within this balance are debt securities of $264 million (2011: $235 million) which are recognised as a result of total return swaps which meet the pass through test of AASB 139 *Financial Instruments: Recognition and Measurement*. The Consolidated Entity does not have legal title to these assets but has full economic exposure to them.

[3] Included within this balance is $3,070 million (2011: $2,314 million) of Negotiable Certificates of Deposits (NCD) receivable from financial institutions and $120 million (2011: $43 million) of bank bills.

[4] Included within this balance is $757 million (2011: $238 million) provided as security over payables to other financial institutions.

[5] Included within this balance is $286 million (2011: $136 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, $6,773 million (2011: $5,915 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 11
Other assets

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Security settlements[1]	**7,180**	5,693	**–**	–
Debtors and prepayments	**5,878**	6,328	**27**	3
Property held for sale and development	**360**	506	**–**	–
Other	**165**	119	**–**	–
Total other assets[2]	**13,583**	12,646	**27**	3

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

[2] Included within this balance is $195 million (2011: $88 million) of assets which are provided as security over amounts payable to other financial institutions.

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

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 12

Loan assets held at amortised cost

Due from clearing houses	**1,202**	1,894	**–**	–
Due from governments[1]	**103**	593		–
Due from other entities				
Other loans and advances	**39,912**	39,931	**–**	–
Less individually assessed provisions for impairment	**(386)**	(332)	**–**	–
	39,526	39,599	**–**	–
Lease receivables	**4,628**	4,159	**–**	–
Less individually assessed provisions for impairment	**(3)**	(2)	**–**	–
Total due from other entities	**44,151**	43,756	**–**	–
Total loan assets before collective allowance for credit losses	**45,456**	46,243	**–**	–
Less collective allowance for credit losses	**(238)**	(227)	**–**	–
Total loan assets held at amortised cost[2, 3]	**45,218**	46,016	**–**	–

1 Governments include federal, state and local governments and related enterprises, predominantly in Australia.

2 Included within this balance are loans of $12,935 million (2011: $13,463 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

3 Included within this balance are other loans of $874 million (2011: $658 million) provided as security over issued notes and payables to other external investors and financial institutions.

Of the above amounts, $12,313 million (2011: $11,716 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Individually assessed provisions for impairment				
Balance at the beginning of the financial year	**334**	352	**–**	–
Provided for during the financial year (note 2)	**103**	94	**–**	–
Loan assets written off, previously provided for	**(19)**	(79)	**–**	–
Recovery of loans previously provided for (note 2)	**(30)**	(16)	**–**	–
Impact of foreign currency translation	**1**	(17)	**–**	–
Balance at the end of the financial year	**389**	334	**–**	–
Individually assessed provisions as a percentage of total gross loan assets	**0.85%**	0.72%	**–**	–
Collective allowance for credit losses				
Balance at the beginning of the financial year	**227**	229	**–**	–
Provided for/(written back) during the financial year (note 2)	**13**	(5)	**–**	–
Loan assets written off, previously provided for	**–**	(5)	**–**	–
Attributable to acquisitions during the financial year	**–**	9	**–**	–
Impact of foreign currency translation	**(2)**	(1)	**–**	–
Balance at the end of the financial year	**238**	227	**–**	–

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

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continued

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 13
Impaired financial assets

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Impaired debt investment securities available for sale before individually assessed provisions for impairment	11	117	–	–
Less individually assessed provisions for impairment	(10)	(86)	–	–
Debt investment securities available for sale after individually assessed provisions for impairment	1	31	–	–
Impaired loan assets and other financial assets before individually assessed provisions for impairment	874	792	–	–
Less individually assessed provisions for impairment	(469)	(415)	–	–
Loan assets and other financial assets after individually assessed provisions for impairment	405	377	–	–
Total net impaired financial assets	**406**	408	–	–

Note 14
Other financial assets at fair value through profit or loss

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Investment securities				
Equity securities	2,255	2,542	–	–
Debt securities	2,025	5,748	–	–
Loan assets	2,435	3,378	–	–
Total other financial assets at fair value through profit or loss[1]	**6,715**	11,668	–	–

[1] Included within this balance is $1,122 million (2011: $1,803 million) provided as security over payables to other financial institutions.

Of the above amounts, $1,306 million (2011: $2,264 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 15
Life investment contracts and other unitholder investment assets

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Cash and receivables from financial institutions	77	144	–	–
Debt securities	550	514	–	–
Units in unit trusts	5,148	4,251	–	–
Equity securities	129	150	–	–
Total life investment contracts and other unitholder investment assets	**5,904**	5,059	–	–

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 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Premium income, investment revenue and management fees	346	329	–	–
Life investment contract claims, reinsurance and changes in policy liabilities	(233)	(199)	–	–
Direct fees	(42)	(47)	–	–
Total income from life investment contracts and other unitholder investment assets (note 2)	**71**	83	–	–

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

As at 31 March 2012, the life investment contracts business had investment assets in excess of policy holder liabilities of $14 million (2011: $10 million).

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 16

Property, plant and equipment

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Furniture, fittings and leasehold improvements				
Cost	**803**	866	**–**	–
Less accumulated depreciation	**(393)**	(322)	**–**	–
Total furniture, fittings and leasehold improvements	**410**	544	**–**	–
Communication equipment				
Cost	**21**	34	**–**	–
Less accumulated depreciation	**(17)**	(26)	**–**	–
Total communication equipment	**4**	8	**–**	–
Computer equipment				
Cost	**189**	288	**–**	–
Less accumulated depreciation	**(142)**	(213)	**–**	–
Total computer equipment	**47**	75	**–**	–
Infrastructure assets				
Cost	**15**	18	**–**	–
Less accumulated depreciation	**(2)**	(2)	**–**	–
Total infrastructure assets	**13**	16	**–**	–
Total	**474**	643	**–**	–
Assets under operating lease				
Aviation				
Cost	**3,660**	4,005	**–**	–
Less accumulated depreciation	**(241)**	(107)	**–**	–
Total aviation	**3,419**	3,898	**–**	–
Meters				
Cost	**730**	211	**–**	–
Less accumulated depreciation	**(75)**	(38)	**–**	–
Total meters	**655**	173	**–**	–
Rail cars				
Cost	**489**	157	**–**	–
Less accumulated depreciation	**(29)**	(20)	**–**	–
Total rail cars	**460**	137	**–**	–
Others				
Cost	**287**	217	**–**	–
Less accumulated depreciation	**(60)**	(61)	**–**	–
Total others	**227**	156	**–**	–
Total assets under operating lease	**4,761**	4,364	**–**	–
Total property, plant and equipment	**5,235**	5,007	**–**	–

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

Notes to the financial statements
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continued

Note 16
Property, plant and equipment continued

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

	Furniture, fittings and leasehold improvements $m	Communication equipment $m	Computer equipment $m	Infrastructure assets $m	Total $m
Balance at the beginning of the financial year	544	8	75	16	643
Acquisitions	79	1	23	–	103
Disposals	(78)	–	(1)	–	(79)
Reclassification	–	–	–	–	–
Impairments	(14)	–	–	(3)	(17)
Foreign exchange movements	(7)	–	(1)	–	(8)
Depreciation expense (note 2)	(114)	(5)	(49)	–	(168)
Balance at the end of the financial year	410	4	47	13	474

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 $53 million (2011: $67 million).

Assets under operating lease	Aviation $m	Meters $m	Rail cars $m	Other $m	Total $m
Balance at the beginning of the financial year	3,898	173	137	156	4,364
Acquisitions	41	516	337	121	1,015
Disposals	(346)	–	(6)	(6)	(358)
Reclassification[1]	–	–	–	(11)	(11)
Impairments	(7)	–	–	–	(7)
Foreign exchange movements	9	5	2	1	17
Depreciation expense	(176)	(39)	(10)	(34)	(259)
Balance at the end of the financial year	3,419	655	460	227	4,761

[1] Over the financial year, $11 million of operating assets have been reclassified to finance leases.

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 $2,305 million (2011: $2,424 million).

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

Assets under operating lease	**Consolidated 2012 $m**	Consolidated 2011 $m	**Company 2012 $m**	Company 2011 $m
Not later than one year	493	537	–	–
Later than one year, not later than five years	1,231	1,389	–	–
Later than five years	212	356	–	–
Total future minimum lease payments receivable	1,936	2,282	–	–

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 17

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

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Loans and investments without provisions for impairment	**2,000**	1,820	**–**	–
Loans and investments with provisions for impairment	**1,294**	1,503	**–**	–
Less provision for impairment	**(630)**	(533)	**–**	–
Loans and investments at recoverable amount	**664**	970	**–**	–
Total interests in associates and joint ventures accounted for using the equity method	**2,664**	2,790	**–**	–

The fair values of certain interests in material associates and joint ventures, for which there are public quotations, are below their carrying value by $77 million (2011: $215 million).

Included within this balance is $nil (2011: $48 million) provided as security over payables to other financial institutions.

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

	Consolidated 2012 $m	Consolidated 2011 $m
(i) Reconciliation of movement in the Consolidated Entity's interests in associates and joint ventures accounted for using the equity method:		
Balance at the beginning of the financial year	**2,790**	3,927
Associates acquired/equity invested	**370**	549
Share of pre-tax profits/(losses) of associates and joint ventures	**154**	256
Share of tax (expense)/benefit of associates and joint ventures	**(46)**	(77)
Dividends received from associates (note 34)	**(118)**	(290)
Associates disposed of	**(312)**	(224)
Impairment of investments in associates	**(119)**	(69)
Foreign exchange and other adjustments	**(70)**	(22)
Transferred from/(to) other asset categories	**15**	(1,260)
Balance at the end of the financial year	**2,664**	2,790

(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**	**2012 %**	2011 %
BrisConnections Unit Trusts[1, a]	Australia	30 June	**46**	46
Macquarie Goodman Japan Limited[b]	Singapore	31 March	**50**	50
MGPA Limited[1, b]	Bermuda	30 June	**56**	56
Miclyn Express Offshore Limited[1, c]	Bermuda	30 June	**33**	34
Redford Australian Investment Trust[1, b]	Australia	31 December	**29**	29
Southern Cross Media Group[1, d]	Australia	30 June	**25**	25

[1] Significant influence arises due to the Consolidated Entity's voting power and board representation.

[a] Infrastructure
[b] Property development/management
[c] Metals, mining and energy
[d] Television and radio investments

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Note 17
Interests in associates and joint ventures accounted for using the equity method continued

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

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Share incurred jointly with other investors	33	15	–	–
For which the Consolidated Entity is severally liable	17	8	–	–

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

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Consolidated Entity's share of:				
Assets	7,101	5,784	–	–
Liabilities	4,346	3,109	–	–
Revenues	1,206	1,103	–	–
Profit after tax	108	159	–	–

Note 18
Intangible assets

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Goodwill	693	665	–	–
Customer and servicing contracts	146	186	–	–
Intangible assets with indefinite lives	246	259	–	–
Other identifiable intangible assets	266	207	–	–
Total intangible assets	1,351	1,317	–	–

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

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

	Goodwill $m	Customer and servicing contracts $m	Intangible assets with indefinite lives $m	Other identifiable intangible assets $m	Total $m
Balance at the beginning of the financial year	665	186	259	207	1,317
Acquisitions during the financial year	51	–	–	147	198
Reclassifications during the financial year	1	–	–	(1)	–
Adjustments to purchase consideration[1]	(5)	9	–	(5)	(1)
Disposals during the financial year	(7)	–	–	(18)	(25)
Impairment during the financial year	(6)	(17)	(12)	(2)	(37)
Amortisation expense for the financial year	–	(32)	–	(54)	(86)
Currency translation difference arising during the financial year	(6)	–	(1)	(8)	(15)
Balance at the end of the financial year	693	146	246	266	1,351

[1] These balances relate to adjustments to purchase considerations and allocations.

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

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

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

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

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 19

Investments in subsidiaries

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Investments at cost without provisions for impairment	**–**	–	**11,265**	10,551
Investments at cost with provisions for impairment	**–**	–	**15,423**	16,217
Less provisions for impairment	**–**	–	**(13,163)**	(13,163)
Investments at recoverable amount	**–**	–	**2,260**	3,054
Total investments in subsidiaries	**–**	–	**13,525**	13,605

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

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

- Delaware Management Company (United States)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Affiliated Managers Holdings (USA) Inc. (United States)
- Macquarie Agricultural Funds Management Limited
- Macquarie Alternative Assets Management Limited
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited
- Macquarie Capital (Australia) Limited
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Capital (USA) Inc. (United States)
- Macquarie Capital Group Limited
- Macquarie Corporate and Asset Finance Limited
- Macquarie Equities Limited
- Macquarie FG Holdings Inc. (United States)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Holdings Limited
- Macquarie Financial Limited/Financiere Macquarie Ltee. (Canada)
- Macquarie Financial Products Management Limited
- Macquarie Funding Holdings Inc. (United States)
- Macquarie Funding Inc. (Canada)
- Macquarie Group Services Australia Pty Limited
- Macquarie Holdings (USA) Inc. (United States)
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Securities (Australia) Limited
- Macquarie Securitisation Limited
- Macquarie Specialised Asset Management Limited
- MQ Portfolio Management Limited

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

Overseas subsidiaries conduct business predominantly in their place of incorporation, unless otherwise stated.

Beneficial interest in all entities is 100 per cent.

All material entities have a 31 March reporting date.

In accordance with an ASIC instrument, Macquarie Group Limited is required to disclose that it has been granted relief from synchronising the year-end of one of its consolidated Australian Funds, being "Pareto Global Risk Adjusted Alpha Trust" ARSN 134 011 313 (Pareto Fund). This is of no consequence to the consolidation as, while the Pareto Fund year end is different to that of Macquarie Group Limited, the results and balances included in the consolidation are at the reporting date of 31 March.

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Note 20
Deferred tax assets/(liabilities)

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
The balance comprises temporary differences attributable to:				
Other assets and liabilities	**342**	280	**(2)**	9
Tax losses	**491**	387	**100**	174
Investments in subsidiaries, associates and joint ventures	**392**	538	**–**	–
Fixed assets	**126**	86	**–**	–
Set-off of deferred tax liabilities	**(72)**	(46)	**211**	–
Total deferred tax assets	**1,279**	1,245	**309**	183
Intangible assets	**(103)**	(140)	**–**	–
Other liabilities	**(106)**	(54)	**–**	–
Financial instruments	**(298)**	(28)	**211**	–
Tax effect of reserves	**(1)**	(111)	**–**	–
Set-off of deferred tax assets	**72**	46	**(211)**	–
Total deferred tax liabilities	**(436)**	(287)	**–**	–
Net deferred tax assets	**843**	958	**309**	183

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

Potential tax assets of approximately $74 million (2011: $79 million) attributable to tax losses carried forward by subsidiaries have not been brought to account in the subsidiaries and in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable.

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

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

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 21

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

Non-current assets and assets of disposal groups classified as held for sale				
Associates	**134**	79	**–**	–
Total non-current assets and assets of disposal groups classified as held for sale	**134**	79	**–**	–

The above non-current assets of disposal groups classified as held for sale are expected to be disposed of to other investors within 12 months of being classified as held for sale unless events or circumstances occur that are beyond the control of the Consolidated Entity and the Consolidated Entity remains committed to its plan to sell the assets.

(i) Summarised information of material associates and joint ventures classified as held for sale is as follows:

			Ownership interest	
Name of entity	**Country of incorporation**	**Reporting date**	**2012 %**	2011 %
Retirement Villages Group[a]	Australia	30 June	**10**	10
American Manufactured Communities REIT Inc.[b]	United States	31 December	**53**	–
Soria Finance Co[c]	Mexico	31 December	**–**	22

[a] Retirement homes

[b] Property development/management

[c] Infrastructure

All associates and joint ventures classified as held for sale are unlisted companies.

Voting power is equivalent to ownership interest unless otherwise stated.

(ii) For associates and joint ventures classified as held for sale, the Consolidated Entity's share of contingent liabilities, is as follows:

The Consolidated Entity's share of contingent liabilities in associates and joint ventures classified as held for sale is $nil (2011: $nil).

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
(iii) For associates and joint ventures classified as held for sale, financial information is as follows:				
Consolidated Entity's share of:				
Assets	**475**	321	**–**	–
Liabilities	**319**	229	**–**	–
Revenues	**4**	–	**–**	–
Loss after tax	**(2)**	–	**–**	–

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	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 22
Cash collateral on securities lent and repurchase agreements

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Central banks	–	190	–	–
Governments	–	344	–	–
Financial institutions	4,818	6,002	–	–
Other	8	81	–	–
Total cash collateral on securities lent and repurchase agreements	**4,826**	6,617	–	–

Note 23
Trading portfolio liabilities

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Listed equity securities	2,585	4,500	–	–
Commonwealth government securities	551	340	–	–
Other government securities	266	496	–	–
Corporate securities	213	472	–	–
Total trading portfolio liabilities	**3,615**	5,808	–	–

Note 24
Other liabilities

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Due to brokers and customers	7,858	6,191	–	–
Creditors	5,081	5,700	–	–
Accrued charges and sundry provisions	1,760	1,857	18	–
Other	292	579	–	–
Total other liabilities	**14,991**	14,327	**18**	–

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

Note 25
Payables to financial institutions

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
OECD banks	5,784	6,327	3,178	4,451
Clearing houses[1]	6	6	–	–
Other	2,013	1,477	–	–
Total payable to financial institutions	**7,803**	7,810	**3,178**	4,451

[1] Amounts due to clearing houses are settled on the next business day.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 26

Other financial liabilities at fair value through profit or loss

Equity linked notes	**2,243**	3,466	**–**	–
Debt issued at fair value	**490**	873	**–**	–
Total other financial liabilities at fair value through profit or loss	**2,733**	4,339	**–**	–

Note 27

Debt issued at amortised cost

Debt issued at amortised cost[1]	**39,713**	41,177	**4,459**	4,116
Total debt issued at amortised cost	**39,713**	41,177	**4,459**	4,116

[1] Included within this balance are amounts payable to SPE note holders of $11,474 million (2011: $11,679 million).

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

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

(In Australian dollar equivalent):

United States dollars	**16,802**	18,035	**3,636**	3,629
Australian dollars	**12,958**	14,663	**318**	405
Canadian dollars	**7,192**	7,242	**–**	–
Japanese yen	**2,056**	1,466	**505**	82
Euro	**1,405**	2,295	**–**	–
South African rand	**747**	1,173	**–**	–
Korean won	**488**	247	**–**	–
Great British pounds	**476**	135	**–**	–
Singapore dollars	**119**	62	**–**	–
Hong Kong dollars	**88**	164	**–**	–
Others	**115**	34	**–**	–
Total by currency	**42,446**	45,516	**4,459**	4,116

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

Note 28

Provisions

Provision for annual leave	**126**	117	**–**	–
Provision for long service leave	**83**	80	**–**	–
Provision for other employee entitlements	**20**	7	**–**	–
Provision for dividends	**12**	11	**5**	3
Total provisions	**241**	215	**5**	3

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

Notes to the financial statements
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Note 29
Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

The Consolidated Entity's capital management strategy uses both internal and external measures of capital. Internally, Macquarie's Economic Capital Model (ECAM) has been developed to quantify the Consolidated Entity's aggregate level of risk. The ECAM is used in the Consolidated Entity to support business decision making, including deciding the required level of capital, the setting of risk appetite and as a risk adjusted performance measure.

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A subsidiary of the Company, MBL, is accredited by APRA to apply the Basel II Foundation Internal Ratings Based Approach for credit risk, the Advanced Measurement Approach for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book.

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, fund management, non-financial operations and special purpose entities. Level 3 consists of the Level 2 group plus the Non-Banking Group.

APRA requires ADIs to have a minimum ratio of capital to risk weighted assets (RWAs) of 8 per cent at both Level 1 and Level 2, with at least 4 per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. Macquarie internal capital policy set by the Board requires capital floors above this regulatory required level. At Level 3 group which involves the Non-Operating Holding Company structure, APRA has imposed minimum regulatory capital requirements calculated as the sum of the dollar value of:

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

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

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

Note 30

Loan capital

Subordinated debt

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

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie CPS at face value of $100 each. These instruments are non-cumulative and unsecured and may be resold, mandatorily converted into MGL ordinary shares (subject to certain conditions being satisfied) or redeemed on 30 June 2013. The Macquarie CPSs bear fixed-rate coupons at 11.095 per cent per annum, paid semi-annually until 30 June 2013, and thereafter a floating rate will apply.

Macquarie Preferred Membership Interests

On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued $US400 million of $US denominated Preferred Membership Interests (Macquarie PMI). These instruments are non-cumulative and unsecured equity interests in the issuer. They are redeemable at the Company's option on any distribution date from 2 December 2015, and are non-dilutive, as they will only exchange to MGL preference shares in specified circumstances, and mandatorily on 26 November 2035. The Macquarie PMIs bear fixed-rate coupons at 8.375 per cent per annum, paid semi-annually.

Exchangeable Capital Securities

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

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

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125 per cent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL ordinary shares will be issued at a 5 per cent discount to the MGL share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange. There is no additional amount payable by an ECS holder on an exchange. No ECS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if ECS were exchanged at 31 March 2012 would be 8,730,560.

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 2012, the remaining principal liability related to the ECS was US$250 million ($241 million).

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Note 30
Loan capital continued

Maturity and currency profiles of loan capital instruments

	Consolidated 2012 $m	Consolidated 2011 $m	**Company 2012 $m**	Company 2011 $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	**87**	37	**–**	–
12 November 2014	**10**	10	**–**	–
19 September 2016	**–**	306	**–**	–
6 December 2016	**–**	441	**–**	–
31 May 2017	**299**	308	**–**	–
21 September 2020	**767**	816	**–**	–
7 April 2021	**963**	–	**–**	–
Subordinated debt	**2,126**	1,918	**–**	–
Instruments where the Consolidated Entity has conditional repayment obligations:				
Macquarie CPS	**600**	600	**–**	–
Macquarie PMI	**386**	386	**–**	–
ECS	**241**	–	**–**	–
Total loan capital[1]	**3,353**	2,904	**–**	–
Reconciliation of subordinated debt by major currency: *(In Australian dollar equivalent)*				
United States dollars	**1,625**	391	**–**	–
Australian dollars	**927**	911	**–**	–
Euro	**801**	1,294	**–**	–
Great British pounds	**–**	308	**–**	–
Total loan capital[1]	**3,353**	2,904	**–**	–

[1] Balance disclosed excludes $10 million (2011: $10 million) of directly attributable costs related to the issue of Macquarie CPS, Macquarie PMI and ECS.

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

The carrying value of subordinated debt at fair value through profit or loss at 31 March 2012 is equal to the contractual amount at maturity (2011: $5 million higher).

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

	Consolidated 2012 Number of Shares	Consolidated 2011 Number of Shares	Consolidated 2012 $m	Consolidated 2011 $m

Note 31
Contributed equity

Ordinary share capital				
Opening balance of fully paid ordinary shares	**346,814,961**	344,244,271	**7,140**	6,990
Issue of shares on exercise of options	**29,013**	38,089	**1**	1
Issue of shares on exercise of MEREP awards	**3,530**	11,565	**–**	–
Employee Share Plan (ESP) share issue at $23.81 (31 March 2011: $40.52) per share	**35,834**	32,328	**1**	1
Dividend Reinvestment Plan (DRP) share issue at $34.60 (31 March 2011: $36.36 and $45.45) per share	**1,407,153**	1,739,817	**49**	72
Issue of shares on retraction of exchangeable shares at $80.30 per share	**198,398**	256,363	**16**	21
Issue of shares on retraction of exchangeable shares with vesting conditions at $50.80 per share	**62,162**	57,842	**3**	3
Issue of shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	**33,332**	40,332	**–**	–
Issue of shares to MEREP Trust within the range of $38.42 and $50.40 per share	**–**	394,354	**–**	19
Transfer from share-based payments reserve for MEREP awards that have vested	**–**	–	**79**	33
Closing balance of fully paid ordinary shares	**348,584,383**	346,814,961	**7,289**	7,140

As at 31 March 2012, 19,585,781 (2011: 31,089,010) options granted to employees over unissued ordinary shares were on issue, excluding options which can not be exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 36 – Employee equity participation. Disclosures regarding the Company's DRP are included in note 5 – Dividends and distributions paid or provided for.

Notes to the financial statements
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Note 31
Contributed equity continued

	Company 2012 Number of Shares	Company 2011 Number of Shares	Company 2012 $m	Company 2011 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**346,814,961**	344,244,271	**9,944**	9,806
Issue of shares on exercise of options	**29,013**	38,089	**1**	1
Issue of shares on exercise of MEREP awards	**3,530**	11,565	**–**	–
ESP share issue at $23.81 (31 March 2011: $40.52) per share	**35,834**	32,328	**1**	1
DRP share issue at $34.60 (31 March 2011: $36.36 and $45.45) per share	**1,407,153**	1,739,817	**49**	72
Issue of shares on retraction of exchangeable shares at $80.30 per share	**198,398**	256,363	**5**	10
Issue of shares on retraction of exchangeable shares with vesting conditions at $50.80 per share	**62,162**	57,842	**2**	2
Issue of shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc. employees	**33,332**	40,332	**–**	–
Issue of shares to MEREP Trust within the range of $38.42 and $50.40 per share	**–**	394,354	**–**	19
Transfer from share-based payments reserve for MEREP awards that have vested	**–**	–	**79**	33
Closing balance of fully paid ordinary shares	**348,584,383**	346,814,961	**10,081**	9,944

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 31

Contributed equity continued

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Closing balance of 24,646,608 (31 March 2011: 16,051,666) Treasury shares[1]	**(1,136)**	(731)	**(1,129)**	(726)
Exchangeable shares				
Opening balance of 2,150,614 (1 April 2010: 2,935,489) exchangeable shares	**104**	137	**–**	–
Issue of 40,943 (31 March 2011: 43,767) exchangeable shares with retention conditions at $50.80 per share, exchangeable to shares in MGL on a one-for-one basis[2, 3]	**2**	6	**–**	–
Retraction of 198,398 (31 March 2011: 256,363) exchangeable shares at $80.30 per share, exchangeable to shares in MGL on a one-for-one basis[4]	**(16)**	(21)	**–**	–
Retraction of 62,162 (31 March 2011: 57,842) exchangeable shares with retention conditions at $50.80 per share, exchangeable to shares in MGL on a one-for-one basis	**(3)**	(3)	**–**	–
Cancellation of 10,442 (31 March 2011: 103,764) exchangeable shares at $80.30 per share	**(1)**	(8)	**–**	–
Cancellation of 152,562 (31 March 2011: 410,673) exchangeable shares at $50.80 per share	**(4)**	(7)	**–**	–
Cancellation of 8,471 (31 March 2011: nil) exchangeable shares with retention conditions at $50.80 per share	**–**	–	**–**	–
Closing balance of 1,759,522 (31 March 2011: 2,150,614) exchangeable shares	**82**	104	**–**	–

1 In December 2009, the Company introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff. Under MEREP the staff retained profit share is held in the shares of the Company by the Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust) and presented as Treasury shares. For further information regarding terms and conditions of MEREP refer to note 36 – Employee equity participation.

2 The exchangeable shares were issued by a subsidiary in August 2009 as consideration for the acquisition of Tristone Capital Global Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. They are eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. The exchangeable shares must be exchanged by August 2019 and carry no MGL voting rights.

There are also retention agreements in place with key former Tristone employees, under which new MGL shares may be allocated within five years from the date of acquisition. As at 31 March 2012, the total number of retention options remaining is 40,941 (2011: 81,884).

3 The value of the exchangeable shares at reporting date includes a fair value adjustment due to an earn out mechanism. The number of exchangeable shares exercisable by the holders will expand (to a maximum of 4 million shares) or contract, based on the performance of the acquired business against pre-determined financial performance measures until the adjustment date.

4 The exchangeable shares were issued by a subsidiary in November 2007 as consideration for the acquisition of Orion Financial Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation.* They are eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no MGL voting rights.

There are also retention agreements in place with key former Orion employees, under which new MGL shares may be allocated within five years from the date of acquisition. As at 31 March 2012, the total number of retention options remaining is 33,336 (2011: 66,668).

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Note 32
Reserves, retained earnings and non-controlling interests

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	(820)	(320)	–	–
Currency translation differences arising during the financial year, net of hedge and net of tax	43	(500)	–	–
Balance at the end of the financial year	(777)	(820)	–	–
Available for sale reserve				
Balance at the beginning of the financial year	382	126	–	–
Revaluation movement for the financial year, net of tax	(118)	437	–	–
Transfer to income statement upon impairment, net of tax	22	(6)	–	–
Transfer to income statement on realisation	(166)	(175)	–	–
Balance at the end of the financial year	120	382	–	–
Share-based payments reserve				
Balance at the beginning of the financial year	789	544	604	359
Option expense for the financial year	12	32	–	–
MEREP expense for the financial year	229	246	–	–
Options issued to employees of subsidiaries (note 34)	–	–	12	32
MEREP issued to employees of subsidiaries (note 34)	–	–	229	246
Transfer to share capital on exercise of options	–	–	–	–
Transfer to share capital on vesting of MEREP awards	(79)	(33)	(79)	(33)
Transfer to retained earnings[1]	(185)	–	–	–
Balance at the end of the financial year	766	789	766	604
Cash flow hedging reserve				
Balance at the beginning of the financial year	(37)	(39)	–	–
Revaluation movement for the financial year, net of tax	(10)	2	–	–
Balance at the end of the financial year	(47)	(37)	–	–
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	(4)	(31)	–	–
Share of other comprehensive (expense)/income during the financial year	(14)	27	–	–
Balance at the end of the financial year	(18)	(4)	–	–
Total reserves at the end of the financial year	44	310	766	604
Retained earnings				
Balance at the beginning of the financial year	4,581	4,268	2,834	2,902
Profit attributable to ordinary equity holders of MGL	730	956	415	573
Dividends paid on ordinary share capital (note 5)	(572)	(643)	(571)	(641)
Transfer from share-based payments reserves [1]	185	–	–	–
Balance at the end of the financial year	4,924	4,581	2,678	2,834

[1] Includes $185 million (March 2011: $nil) transferred to retained earnings in respect of expired and lapsed options.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 32

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Macquarie Income Securities[1]				
4,000,000 Macquarie Income Securities of $100 each	**400**	400	**–**	–
Less transaction costs for original placement	**(9)**	(9)	**–**	–
Total Macquarie Income Securities	**391**	391	**–**	–
Macquarie Income Preferred Securities[2]				
Proceeds on issue of Macquarie Income Preferred Securities	**107**	107	**–**	–
Less issue costs	**(1)**	(1)	**–**	–
	106	106	**–**	
Current year profit	**4**	4	**–**	–
Distribution provided for on Macquarie Income Preferred Securities (note 5)	**(4)**	(4)	**–**	–
Foreign currency translation reserve	**(43)**	(43)	**–**	–
Total Macquarie Income Preferred Securities	**63**	63	**–**	–
Other non-controlling interests				
Ordinary share capital	**33**	46	**–**	–
Preference share capital	**2**	–	**–**	–
Foreign currency translation reserve	**(15)**	(12)	**–**	–
Retained earnings	**55**	40	**–**	–
Total other non-controlling interests	**75**	74	**–**	–
Total non-controlling interests	**529**	528	**–**	–

[1] The Macquarie Income Securities issued by MBL were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 per cent per annum (2011: 1.7 per cent per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

[2] On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. MIPS – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (2011: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at MGL's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. The first coupon was paid on 15 April 2005. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

These instruments are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation* and reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with NCI share of profit after tax.

Distribution policies for these instruments are included in note 5 – Dividends and distributions paid or provided for.

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for the financial year ended 31 March 2012
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	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 33
Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

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

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Receivables from financial institutions[1]	**10,853**	9,667	**–**	–
Trading portfolio assets and debt securities[2]	**3,975**	2,656	**–**	–
Cash and cash equivalents at the end of the financial year	**14,828**	12,323	**–**	–

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

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

Reconciliation of profit after income tax to net cash flows from operating activities	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Profit after income tax	**762**	989	**415**	573
Adjustments to profit after income tax:				
Depreciation and amortisation	**513**	406	**–**	–
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(250)**	(234)	**–**	–
Gain on acquiring, disposing, and change in ownership interest in subsidiaries and businesses held for sale	**(35)**	(96)	**–**	–
Provision and impairment charge on financial and non-financial assets	**467**	270	**–**	–
Gain on sale of non-financial asset	**(104)**	(13)	**–**	–
Interest on available for sale financial assets	**(109)**	(148)	**–**	–
Net gains on sale of investment securities available for sale and associates and joint ventures	**(305)**	(377)	**–**	–
Sale of management rights	**–**	(14)	**–**	–
Share-based payment expense	**243**	284	**–**	–
Share of net profits of associates and joint ventures accounted for using the equity method	**(108)**	(179)	**–**	–
Changes in assets and liabilities:				
Change in amount due from subsidiaries under tax funding agreement	**–**	–	**97**	(100)
Change in dividends receivable	**(19)**	(50)	**–**	–
Change in values of associates due to dividends received	**118**	290	**–**	–
Change in fees and non-interest income receivable	**(267)**	316	**–**	–
Change in fees and commissions payable	**71**	14	**–**	–
Change in tax balances	**(28)**	78	**(247)**	52
Change in provisions for employment entitlements	**8**	6	**–**	–
Change in loan assets	**712**	(1,550)	**2,223**	2,548
Change in loan payable to a subsidiary	**–**	–	**(737)**	(512)
Change in debtors, prepayments, accrued charges and creditors	**(90)**	(292)	**5**	8
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**1,962**	(4,849)	**–**	–
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**581**	7,324	**(934)**	(1,516)
Change in life investment contract receivables	**290**	204	**–**	–
Net cash flows from operating activities	**4,412**	2,379	**822**	1,053

Note 34
Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of management and administration services.

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

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

In the financial year ended 31 March 2008 the Company received a $10.1 billion intra-group loan from MBL of which $737 million was outstanding at 31 March 2011. This facility was repaid on 27 April 2011.

A list of material subsidiaries is set out in note 19 – Investments in subsidiaries.

The Company as the ultimate parent entity of the Macquarie Group, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in note 1(vii) – Summary of significant accounting policies. During the year ended 31 March 2012, current tax liabilities of subsidiaries assumed by MGL as the head entity of the tax consolidated group amounted to $94 million (2011: $201 million). As at 31 March 2012, the amount receivable by the Company under the tax funding agreement with the tax consolidated entities is $172 million (2011: $294 million receivable). This balance is included in Due from subsidiaries in the Company's separate statement of financial position.

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

	Consolidated 2012 $m	Consolidated 2011 $m	**Company 2012 $m**	Company 2011 $m
Interest income received/receivable	**–**	–	**349**	521
Interest expense paid/payable	**–**	–	**(32)**	(91)
Share-based payments to employees of subsidiaries (note 32)	**–**	–	**(241)**	(278)
Dividends and distributions (note 2)	**–**	–	**492**	635
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	**–**	–	**7,317**	9,530
Amounts payable[1]	**–**	–	**(1,072)**	(1,951)

[1] As described in note 1(xx) – Summary of significant accounting policies, the Company has recognised a liability as at 31 March 2012 of $338 million (2011: $189 million) for amounts received in advance as at 31 March 2012 from subsidiaries for the MEREP offered to their employees and yet to be recognised as a share-based payment expense by the subsidiary. To the extent that the awards vest, this amount will be retained by the Company as compensation for issuing and releasing the shares to the subsidiary employees.

Outstanding balances are unsecured and are repayable in cash. The weighted average interest rate charged on outstanding balances receivable/payable are disclosed in note 42 – Average interest bearing assets and liabilities and related interest.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 34
Related party information continued

Associates and joint ventures

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

During the financial year, the following income/(expense) resulted from transactions with associates and joint ventures:

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Interest income received/receivable	2	3	–	–
Fee and commission income[1]	427	452	–	–
Other income	4	3	–	–
Gains on sale of securities[2]	38	19	–	–
Dividends and distributions[3] (note 17)	118	290	–	–
Brokerage, commission and trading-related expenses	(6)	(10)	–	–

[1] Fee and commission income includes all fees charged to associates.

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

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

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in note 17 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Amounts receivable	299	237	–	–
Amounts payable	(120)	(142)	–	–

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

Note 35

Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of the Company during the financial years ended 31 March 2012 and 31 March 2011, unless indicated.

Executive Directors

N.W. Moore[1]	Managing Director and Chief Executive Officer

Non-Executive Directors

D.S. Clarke, AO	Non-Executive Chairman (resigned 17 March 2011)
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 (appointed as Chairman 17 March 2011)
J.R. Niland, AC	
H.M. Nugent, AO	
P.H. Warne	

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MGL during the past two financial years ended 31 March 2012 and 31 March 2011, unless otherwise indicated.

Executives

S.D. Allen[1]	Group Head, Risk Management Group
T.C. Bishop[1]	Group Head, Macquarie Capital (appointed 1 January 2012) Country Head, United States of America (2 July 2010 to 31 December 2011)
M. Carapiet	Executive Chairman, Macquarie Capital and Macquarie Securities Group (retired from the Executive Committee on 11 July 2011)
A.J. Downe[1]	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell[1]	Group Head, Corporate and Asset Finance Group (appointed 2 July 2010)
R.S. Laidlaw	Executive Chairman, Macquarie Securities Group (11 July 2011 until retirement from the Executive Committee on 31 December 2011) Group Head, Macquarie Securities Group (to 7 April 2011) Group Head, Macquarie Capital (to 31 December 2011)
P.J. Maher[1]	Group Head, Banking and Financial Services Group
M. McLaughlin[1]	Country Head, United States of America (appointed 1 January 2012)
W.R. Sheppard	Deputy Managing Director (retired from the Executive Committee on 20 December 2011)
S. Vrcelj[1]	Group Head, Macquarie Securities Group (appointed 7 April 2011) Head of Global Cash and Equities (2 July 2010 to 22 November 2011)
G.C. Ward[1]	Deputy Managing Director (appointed 20 December 2011) Chief Financial Officer (to 20 December 2011)
S. Wikramanayake[1]	Group Head, Macquarie Funds Group

[1] Members of the Consolidated Entity's Executive Committee as at 27 April 2012.

The principles of compensation for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report on pages 40 to 94.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 35
Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for Key Management Personnel:

	Short-term Employee Benefits				Long-term Employee Benefits[1]	Share-based Payments		
	Salary and fees (including superannuation) $	Performance related remuneration $	Other benefits $	Total short-term Employee Benefits $	Restricted profit share $	Equity awards including shares $	PSUs/ options $	Total remuneration $
Executive Remuneration								
2012	**8,048,031**	**17,087,936**	**–**	**25,135,967**	**6,545,563**	**25,435,760**	**6,345,616**	**63,462,906**
2011	7,631,089	22,162,270	–	29,793,359	10,137,294	14,511,951	4,473,965	58,916,569
Non-Executive Remuneration								
2012	**3,098,836**	**–**	**62,500**	**3,161,336**	**–**	**–**	**–**	**3,161,336**
2011	3,141,600	–	66,750	3,208,350	–	–	–	3,208,350

[1] Includes earnings or losses on restricted profit share.

Note 35

Key Management Personnel disclosure continued

Shareholdings of Key Management Personnel and their related parties

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

For the financial year ended 31 March 2012

Name and position	Number of shares held at 1 April 2011[1]	Shares received on withdrawal from the MEREP	Other changes[2]	Number of shares held at 31 March 2012[3]
Executive Directors				
N.W. Moore	1,245,745	120,708	–	1,366,453
Non-Executive Directors				
H.K. McCann	13,485	–	–	13,485
D.J. Grady[4]	2,000	–	114	2,114
M.J. Hawker	6,103	–	2,500	8,603
P.M. Kirby	23,198	–	–	23,198
C.B. Livingstone	12,000	–	–	12,000
J.R. Niland	10,122	–	–	10,122
H.M. Nugent	21,176	–	–	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen	38,205	13,288	(13,290)	38,203
T.C. Bishop	–	11,974	–	11,974
A.J. Downe	58,099	4,993	–	63,092
G.A. Farrell	131,683	–	–	131,683
P.J. Maher	8,737	11,045	(10,148)	9,634
M. McLaughlin[5]	–	–	–	–
S. Vrcelj	–	9,341	(9,341)	–
G.C. Ward	8,936	2,492	(2,492)	8,936
S. Wikramanayake	335,352	9,558	–	344,910
Former				
M. Carapiet[6]	587,616	–	–	587,616
R. S. Laidlaw[6]	1,865	13,159	–	15,024
W.R. Sheppard[6]	228,183	15,163	–	243,346

1 Or date of appointment if later.

2 Includes on-market acquisitions and disposals.

3 Or date of resignation/retirement if earlier.

4 Ms Grady was appointed to the board on 19 May 2011. The opening balance on 1 April 2011 represents her holdings at the date of appointment.

5 Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents his holdings at the date of appointment.

6 Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. Balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 35
Key Management Personnel disclosure continued

Shareholdings of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2011

Name and position	Number of shares held at 1 April 2010[1]	Shares received on withdrawal from the MEREP	Other changes[2]	Number of shares held at 31 March 2011[3]
Executive Directors				
N.W. Moore	1,245,745	–	–	1,245,745
Non-Executive Directors				
H.K. McCann	13,485	–	–	13,485
M.J. Hawker	4,103	–	2,000	6,103
P.M. Kirby	23,198	–	–	23,198
C.B. Livingstone	12,000	–	–	12,000
J.R. Niland	10,122	–	–	10,122
H.M. Nugent	21,176	–	–	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen	38,205	13,290	(13,290)	38,205
T.C. Bishop[4]	–	6,074	(6,074)	–
M. Carapiet	587,616	–	–	587,616
A.J. Downe	78,878	–	(20,779)	58,099
G.A. Farrell[4]	148,646	–	(16,963)	131,683
R.S. Laidlaw	39,035	13,159	(50,329)	1,865
P.J. Maher	74,175	9,832	(75,270)	8,737
W.R. Sheppard	249,309	14,799	(35,925)	228,183
S. Vrcelj[4]	–	9,341	(9,341)	–
G.C. Ward	15,345	8,106	(14,515)	8,936
S. Wikramanayake	326,867	8,485	–	335,352
Former				
D.S. Clarke[5]	273,717	–	(213,464)	60,253

1 Or date of appointment if later.

2 Includes on-market acquisitions and disposals.

3 Or date of resignation/retirement if earlier.

4 Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents their holdings at the date of appointment.

5 Mr Clarke resigned from the Board on 17 March 2011. Balance at 31 March 2011 represents holdings at date of resignation.

Note 35

Key Management Personnel disclosure continued

MEREP RSU Awards of Key Management Personnel and their related parties

The following tables set out details of the MEREP RSU awards held during the year for the Key Management Personnel including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report from pages 164 to 170. Further details in relation to the MEREP RSU awards are disclosed in note 36 – Employee equity participation.

For the financial year ended 31 March 2012

Name and position	Number of RSU awards held at 1 April 2011[1]	RSU awards granted during the financial year[2]	Vested RSU awards withdrawn or sold from the MEREP during the financial year[3]	Number of RSU awards held at 31 March 2012[4]	Number of RSU awards vested and not withdrawn at 31 March 2012
Executive Directors					
N.W. Moore	571,822	152,602	(117,134)	607,290	–
Executives					
S.D. Allen[5]	140,579	40,158	(13,288)	167,449	–
T.C. Bishop[6]	153,168	68,138	(18,078)	203,228	–
A.J. Downe	178,838	87,129	–	265,967	–
G.A. Farrell	60,508	60,668	–	121,176	–
P.J. Maher	114,881	46,469	(9,832)	151,518	–
M. McLaughlin[7]	258,851	–	–	258,851	–
S. Vrcelj	95,038	56,021	(9,341)	141,718	–
G.C. Ward	122,895	45,895	(8,106)	160,684	–
S. Wikramanayake[8]	74,148	37,290	(8,485)	102,953	–
Former					
M. Carapiet[9]	80,376	29,543	–	109,919	–
R.S. Laidlaw[9]	184,885	91,260	(13,159)	262,986	–
W.R. Sheppard[9]	115,699	34,421	(14,799)	135,321	–

1 Or date of appointment if later.

2 As discussed in note 1(xx) – Summary of significant accounting policies, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above relate to 2011.

3 Includes vested RSUs transferred to the KMP's shareholding and vested RSUs where the underlying share is sold directly by the MEREP Trustee and not transferred to the KMP's shareholdings.

4 Or date of resignation/retirement if earlier.

5 At 31 March 2012, 84,832 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

6 At 31 March 2012, 66,151 of these awards are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

7 Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

8 At 31 March 2012, 47,603 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

9 Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. During the year the BRC exercised its discretion to accelerate the vesting of retained profit share in the form of RSUs for Mr Carapiet, Mr Sheppard and Mr Laidlaw due to the announcement of their intention to cease employment on the grounds of genuine retirement. This acceleration is effective the date they cease employment with the Company. All outstanding amortisation has been recognised as an expense in the current year. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 35
Key Management Personnel disclosure continued

MEREP RSU Awards of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2011

Name and position	Number of RSU awards held at 1 April 2010[1]	RSU awards granted during the financial year[2]	Vested RSU awards withdrawn from the MEREP during the financial year	Number of RSU awards held at 31 March 2011[3]	Number of RSU awards vested at 31 March 2011
Executive Directors					
N.W. Moore	466,460	105,362	–	571,822	58,567
Executives					
S.D. Allen[4]	113,565	40,304	(13,290)	140,579	–
T.C. Bishop[5, 6]	159,242	–	(6,074)	153,168	6,002
M. Carapiet	34,661	45,715	–	80,376	–
A.J. Downe	80,877	97,961	–	178,838	–
G.A. Farrell[5]	60,508	–	–	60,508	–
R.S. Laidlaw	126,778	71,266	(13,159)	184,885	–
P.J. Maher	88,468	36,245	(9,832)	114,881	–
W.R. Sheppard	108,729	21,769	(14,799)	115,699	–
S. Vrcelj[5]	104,379	–	(9,341)	95,038	–
G.C. Ward	92,688	38,313	(8,106)	122,895	–
S. Wikramanayake[7]	69,028	13,605	(8,485)	74,148	–

1 Or date of appointment if later.

2 As discussed in note 1(xx) – Summary of significant accounting policies, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, RSUs disclosed as granted above relate to 2010.

3 Or date of resignation/retirement if earlier.

4. At 31 March 2011, 88,406 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

5 Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents their holdings at the date of appointment.

6 At 31 March 2011, 60,382 of these awards are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

7 At 31 March 2011, 47,603 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

Note 35

Key Management Personnel disclosure continued

MEREP PSU Awards of Key Management Personnel and their related parties

The following tables set out details of MEREP PSU awards held during the year for the Key Management Personnel including their related parties, on a Consolidated Entity basis. Further details in relation to the MEREP PSU awards are disclosed in note 36 – Employee equity participation.

For the financial year ended 31 March 2012

Name and position	Number of PSU awards held at 1 April 2011[1]	PSU awards granted during the financial year[2]	Vested PSU awards exercised during the financial year	PSU awards not able to be exercised due to performance hurdles not met[3]	Number of PSU awards held at 31 March 2012[4]	Number of PSU awards vested and not exercised during the financial year	Number of PSU awards vested and not exercised at 31 March 2012[4]
Executive Directors							
N.W. Moore	146,525	159,981	(3,574)	(9,192)	293,740	–	–
Executives							
S.D. Allen	29,906	59,173	–	–	89,079	–	–
T.C. Bishop	–	71,317	–	–	71,317	–	–
A.J. Downe	153,067	113,721	(4,993)	(12,840)	248,955	–	–
G.A. Farrell	–	79,027	–	–	79,027	–	–
P.J. Maher	49,796	60,587	(1,213)	(3,120)	106,050	–	–
M. McLaughlin[5]	–	–	–	–	–	–	–
S. Vrcelj	–	52,170	–	–	52,170	–	–
G.C. Ward	70,711	67,462	(2,492)	(6,408)	129,273	–	–
S. Wikramanayake	36,427	87,379	(1,073)	(2,760)	119,973	–	–
Former							
M. Carapiet[6]	103,924	–	(3,201)	(8,232)	92,491	–	–
R.S. Laidlaw[6]	93,210	109,866	–	(4,968)	198,108	1,932	1,932
W.R. Sheppard[6]	28,827	50,500	(364)	(936)	78,027	–	–

[1] Or date of appointment if later.

[2] As discussed in note 1(xx) – Summary of significant accounting policies, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. PSUs disclosed as granted above relate to 2011.

[3] Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2011 were partially achieved and therefore some PSU awards did not become exercisable and lapsed. The related expense previously recognised on these PSU grants was reversed during the current and prior financial years.

[4] Or date of resignation/retirement if earlier.

[5] Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

[6] Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. During the year the BRC exercised its discretion to waive the employment condition attached to the PSUs yet to vest for Mr Carapiet, Mr Sheppard and Mr Laidlaw due to the announcement of their intention to cease employment on the grounds of genuine retirement. The PSUs become exercisable only upon the achievement of the performance hurdles tested at each vesting date in the future. All outstanding amortisation on these PSUs has been recognised as an expense in the current year. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Notes to the financial statements
for the financial year ended 31 March 2012
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Note 35
Key Management Personnel disclosure continued

MEREP PSU Awards of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2011

Name and position	Number of PSU awards held at 1 April 2010[1]	PSU awards granted during the financial year[2]	PSU awards exercised during the financial year	Number of PSU awards held at 31 March 2011[3]	Number of PSU awards vested and not exercised during the financial year	Number of PSU awards vested and not exercised at 31 March 2011[3]
Executive Directors						
N.W. Moore	38,300	108,225	–	146,525	–	–
Executives						
S.D. Allen	–	29,906	–	29,906	–	–
T.C. Bishop	–	–	–	–	–	–
M. Carapiet	34,300	69,624	–	103,924	–	–
A.J. Downe	53,500	99,567	–	153,067	–	–
G.A. Farrell	–	–	–	–	–	–
R.S. Laidlaw	20,700	72,510	–	93,210	–	–
P.J. Maher	13,000	36,796	–	49,796	–	–
W.R. Sheppard	3,900	24,927	–	28,827	–	–
S. Vrcelj	–	–	–	–	–	–
G.C. Ward	26,700	44,011	–	70,711	–	–
S. Wikramanayake	11,500	24,927	–	36,427	–	–

[1] Or date of appointment if later.

[2] As discussed in note 1(xx) – Summary of significant accounting policies, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, PSUs disclosed as granted above relate to 2010.

[3] Or date of resignation/retirement if earlier.

Note 35

Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties

The following tables set out details of options held during the year for the Key Management Personnel including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report from pages 40 to 94. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. Further details in relation to the MGESOP are disclosed in note 36 – Employee equity participation. There were no options issued to Key Management Personnel during the financial years ended 31 March 2012 and 31 March 2011.

For the financial year ended 31 March 2012

Name and position	Number of options outstanding at 1 April 2011[1]	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met[2]	Other changes[3]	Number of options outstanding at 31 March 2012[4,5]	Number of options vested during the financial year	Number of options vested at 31 March 2012[4]
Executive Directors							
N.W. Moore	267,401	–	(132,768)	(53,333)	81,300	–	–
Executives							
S.D. Allen	148,975	–	–	(55,490)	93,485	31,163	73,785
T.C. Bishop	330,805	–	–	(57,805)	273,000	91,001	241,666
A.J. Downe	175,334	–	(87,667)	(28,333)	59,334	–	–
G.A. Farrell	178,095	–	–	(60,115)	117,980	39,328	92,980
P.J. Maher	51,668	–	(25,000)	(10,000)	16,668	–	–
M. McLaughlin[6]	19,000	–	–	–	19,000	–	12,666
S. Vrcelj	108,000	–	–	(26,000)	82,000	27,333	58,666
G.C. Ward	55,667	–	(27,833)	(10,000)	17,834	–	–
S.Wikramanayake	128,609	–	(26,666)	(30,085)	71,858	15,064	45,190
Former							
M. Carapiet[7]	223,120	–	(108,666)	(66,668)	47,786	–	47,786
R.S. Laidlaw[7]	250,605	–	(45,000)	(83,240)	122,365	25,789	77,365
W.R. Sheppard[7]	64,000	–	(32,000)	(15,000)	17,000	–	–

1 Or date of appointment if later.

2 Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2011 were not achieved and therefore the options did not become exercisable. The related expense previously recognised on these option grants was reversed during the year ended 31 March 2011. The value of those options that failed to become exercisable on 1 July 2011 was $nil.

3 Includes vested options lapsed and forfeited during the financial year.

4 Or date of resignation/retirement if earlier.

5 Options outstanding at the end of the year excludes options that are not exercisable due to performance hurdles not met. Options outstanding per the Directors' relevant interest on page 87 of the Directors' Report includes all options on issue including those not able to be exercised due to failure of past performance hurdles.

6 Mr McLaughlin was appointed to the Executive Committee on 1 January 2012. The opening balance on 1 April 2011 represents holdings at the date of appointment.

7 Mr Carapiet, Mr Sheppard and Mr Laidlaw retired from the Executive Committee effective 11 July 2011, 20 December 2011 and 31 December 2011 respectively. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 35
Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2011

Name and position	Number of options outstanding at 1 April 2010[1]	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met[2]	Other changes[3]	Number of options outstanding at 31 March 2011[4,5]	Number of options vested during the financial year	Number of options vested at 31 March 2011[4]
Executive Directors							
N.W. Moore	623,501	–	(186,100)	(170,000)	267,401	–	53,333
Executives							
S.D. Allen	218,725	–	–	(69,750)	148,975	49,659	98,112
T.C. Bishop[6]	355,219	–	–	(24,414)	330,805	–	181,470
M. Carapiet	460,781	–	(156,454)	(81,207)	223,120	–	47,786
A.J. Downe	341,334	–	(116,000)	(50,000)	175,334	–	28,333
G.A. Farrell[6]	211,595	–	–	(33,500)	178,095	–	113,767
R.S. Laidlaw	347,925	–	(45,000)	(52,320)	250,605	53,536	134,816
P.J. Maher	103,334	–	(34,999)	(16,667)	51,668	–	10,000
W.R. Sheppard	161,000	–	(47,000)	(50,000)	64,000	–	15,000
S. Vrcelj[6]	108,000	–	–	–	108,000	–	57,333
G.C. Ward	123,500	–	(37,833)	(30,000)	55,667	–	10,000
S. Wikramanayake	178,275	–	(26,666)	(23,000)	128,609	25,092	60,211

1 Or date of appointment if later.

2 Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2010 were not achieved and therefore the options did not become exercisable. The related expense previously recognised on these option grants was reversed during the year ended 31 March 2011. The value of those options that failed to become exercisable on 1 July 2010 was $nil.

3 Includes vested options lapsed during the financial year.

4 Or date of resignation/retirement if earlier.

5 Options outstanding at the end of the year exclude options that are not exercisable due to performance hurdles not met.

6 Mr Bishop, Mr Farrell and Mr Vrcelj were appointed to the Executive Committee on 2 July 2010. The opening balance on 1 April 2010 represents holdings at the date of appointment.

Note 35

Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April $'000	Interest charged $'000	Write-downs $'000	Closing balance at 31 March $'000
Total for Key Management Personnel and their related parties	**2012**	**5,532**	**374**	**–**	**5,882**
	2011	31,691	1,290	–	5,532
Total for Key Management Personnel[1]	**2012**	**5,532**	**374**	**–**	**5,882**
	2011	12,422	693	–	5,532

[1] Number of persons included in the aggregate at 31 March 2012: 3 (2011: 3).

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

Certain loans are provided under zero cost collar facilities secured over MGL shares under normal terms and conditions consistent with other customers and employees.

Key Management Personnel including their related parties with loans above $100,000 at any time during the financial year ended 31 March 2012 are as follows

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	**20**	**5**	**–**	**370**	**370**
Former					
R.S. Laidlaw[4]	**238**	**13**	**–**	**238**	**238**

[1] Or date of appointment if later.

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

[3] Or date of resignation/retirement if earlier.

[4] Mr Laidlaw retired from the Executive Committee effective 31 December 2011. The balance at 31 March 2012 represents holdings at date of retirement from the Executive Committee.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 35
Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties continued

For the financial year ended 31 March 2011

Name and position	Balance at 1 April 2010[1] $'000	Interest charged[2] $'000	Write-downs $'000	Balance at 31 March 2011[3] $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	5,274	304	–	5,274	5,274
Executives					
R.S. Laidlaw	238	14	–	238	238
Former					
D.S. Clarke[4]	26,160	971	–	5,757	26,526

[1] Or date of appointment if later.

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

[3] Or date of resignation/retirement if earlier.

[4] Mr Clarke resigned from the Board on 17 March 2011.

Note 35

Key Management Personnel disclosure continued

Other transactions with Key Management Personnel and their related parties

Certain Key Management Personnel and their related parties have acquired Infrastructure Bonds and similar products from subsidiaries within the Consolidated Entity, which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to a legal right of set-off and as such are not recognised for financial reporting purposes. The only amounts recognised by the Consolidated Entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2012 $'000	Consolidated 2011 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**1,336**	13,892

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

Executive Directors
N.W. Moore

Non-Executive Directors
P.M. Kirby (2011 only)

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

Former
M. Carapiet, R.S. Laidlaw, W.R. Sheppard

The following Key Management Personnel (including related parties) have entered a zero cost collar transaction with the Consolidated Entity and other non-related entities in respect of ordinary fully paid MGL shares. This has the effect of acquiring cash-settled put options against movements in the MGL share price below nominated levels and disposing of the benefit of any share price movement above the nominated level.

Transactions with the Consolidated Entity

Name and position	**Description**	**Number of shares 2012**	Number of shares 2011
Executives			
A.J. Downe[1]	Matured August 2010	**–**	21,905

[1] Mr Downe entered into a zero cost collar for the period 4 June 2010 to 2 August 2010. There was no loan associated with this collar and the shares were not sold upon maturity on 2 August 2010. Mr Downe subsequently sold these shares in August 2010.

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

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 36
Employee equity participation

Macquarie Group Employee Retained Equity Plan

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

Award Types under the MEREP

Restricted Share Units (RSUs)

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

Deferred Share Units (DSUs)

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

Performance Share Units (PSUs)

PSUs are structured as DSUs or RSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. Where PSUs are structured as DSUs, holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs. For 2011, the PSUs granted to the Executive Committee, including the CEO, are structured as DSUs with performance hurdles. The rights under any future PSUs structured as RSUs will generally be the same as the rights under RSUs, except for the PSU performance hurdles which will not apply to RSUs.

Note 36

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

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

	Number of RSU Awards 2012	Number of RSU Awards 2011
RSUs on issue at the beginning of the financial year	**12,823,140**	7,907,165
Granted during the financial year	**11,469,408**	6,553,673
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(2,386,642)**	(1,029,563)
Forfeited during the financial year	**(1,137,702)**	(608,135)
RSUs on issue at the end of the financial year	**20,768,204**	12,823,140
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**465,731**	452,308

The weighted average fair value of the RSU Awards granted during the financial year was $31.21 (2011: $42.59).

	Number of DSU Awards 2012	Number of DSU Awards 2011
DSUs on issue at the beginning of the financial year	**1,479,382**	780,802
Granted during the financial year	**1,914,568**	899,562
Exercised during the financial year	**(111,951)**	(35,502)
Forfeited during the financial year	**(253,845)**	(165,480)
DSUs on issue at the end of the financial year	**3,028,154**	1,479,382
DSUs exercisable at the end of the financial year	**146,141**	73,884

The weighted average fair value of the DSU Awards granted during the financial year was $31.20 (2011: $42.64).

	Number of PSU Awards 2012	Number of PSU Awards 2011
PSUs on issue at the beginning of the financial year	**712,393**	201,900
Granted during the financial year	**911,183**	510,493
Exercised during the financial year	**(16,910)**	–
Expired during the financial year	**(48,456)**	–
PSUs on issue at the end of the financial year	**1,558,210**	712,393
PSUs exercisable at the end of the financial year	**1,932**	–

The weighted average fair value of the PSU Awards granted during the financial year was $20.89 (2011: $34.63).

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 2012, compensation expense relating to the MEREP totalled $258 million (2011: $256 million).

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 36
Employee equity participation continued

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 are awarded a fixed number of MEREP awards depending on level (New Hire Awards); and
– in limited circumstances, Macquarie staff who may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Company on the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to below as New Hire Awards).

Vesting periods are as follows:

– Retained DPS awards representing 2009 retention for all Executive Directors vest in five equal tranches following the third, fourth, fifth, sixth and seventh anniversaries of 1 July 2009[1]
– Retained DPS awards representing 2010 and 2011 retention awarded to Non-Designated Executive Directors vest in three equal tranches following the third, fourth and fifth anniversaries of 1 July 2010 and 2011 respectively;
– Retained DPS awards representing 2010 and 2011 retention awarded to Designated Executive Directors vest in five equal tranches following the third, fourth, fifth, sixth and seventh anniversaries of 1 July 2010 and 2011 respectively[2];
– Pre-2009 DPS transitioned into the MEREP vests in seven equal tranches for Executive Committee Members and five equal tranches for other Executive Directors on the first day of a staff trading window in the seven or five years following 1 July 2010;
– Retained Profit Share awards, Promotion awards and New Hire Awards vest in three equal tranches after the second, third and fourth anniversaries of the date of allocation[2];
– 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 2011 retention, the allocation price was the volume weighted average price from 9 May 2011 up to and including 20 June 2011. The price was calculated to be $33.06 (2011: $43.48).

The number of Awards allocated was calculated by adjusting the employee's relevant retained profit share amount, or retained DPS, for any applicable on-costs, dividing this amount by the applicable price outlined above, and rounding down to the nearest whole number. The grant of Awards to Eligible Employees working in Australia is subject to payroll tax, calculated based on the market value of shares on the acquisition date.

Performance Share Units

PSUs awarded prior to this year vested in three equal tranches after two, three and four years. The PSUs to be awarded in 2012 will vest in two equal tranches after three and four years.

PSUs awarded prior to this year vested in three equal tranches after two, three and four years. The PSUs to be awarded in 2012 will vest in two equal tranches after three and four years.

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.

Performance Hurdle 1

50 per cent of the PSUs, based solely on the relative average annual return on ordinary equity (ROE) over the vesting period compared to a reference group of domestic and international financial institutions.

A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent vesting at the 75th percentile. For example, if ROE achievement is at the 60th percentile, 70 per cent of the Award would become exercisable. The reference group comprises significant Australian financial companies within the ASX100 as well as Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group comprises ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

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.

[2] Vesting will occur on the first day of a staff trading window following 1 July of the specified year.

Note 36

Employee equity participation continued

Performance Hurdle 2

50 per cent of the PSUs, based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period.

A sliding scale applied 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 per cent, 75 per cent of the Award would become exercisable.

Under both performance hurdles, the objective is to be examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest 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 2012 was $1.56 million (2011: $0.46 million).

Option Plan

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

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

At 31 March 2012 there were 1,989 (2011: 2,441) participants of the MGESOP.

The following is a summary of options which have been granted pursuant to the MGESOP:

	Number of options 2012	**Weighted average exercise price 2012 $**	Number of options 2011	Weighted average exercise price 2011 $
Outstanding at the beginning of the financial year	**31,089,010**	**60.63**	43,545,335	60.94
Forfeited during the financial year	**(847,908)**	**50.51**	(2,907,034)	57.34
Exercised during the financial year	**(29,013)**	**24.13**	(38,089)	30.32
Lapsed during the financial year	**(10,626,308)**	**62.40**	(9,511,202)	63.20
Outstanding at the end of the financial year	**19,585,781**	**60.13**	31,089,010	60.63
Exercisable at the end of the financial year	**15,393,363**	**62.22**	18,446,554	63.22

For options exercised during the financial year the weighted average share price at the date of exercise was $28.70 (2011: $37.36). The range of exercise prices for options outstanding at the end of the financial year was $17.10 to $94.48 (2011: $17.10 to $94.48).

The weighted average remaining contractual life for the share options outstanding as at 31 March 2012 is 1.00 years (2011: 1.57 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range $	**Number of options 2012**	**Remaining life (years) 2012**	Number of options 2011	Remaining life (years) 2011
10 – 20	**21,624**	**1.94**	24,000	2.94
20 – 30	**215,679**	**1.83**	279,565	2.85
30 – 40	**361,252**	**1.73**	484,457	2.71
40 – 50	**257,079**	**1.55**	374,531	2.51
50 – 60	**11,322,462**	**1.34**	13,458,653	2.33
60 – 70	**246,168**	**0.84**	7,679,595	0.38
70 – 80	**6,761,280**	**0.38**	8,203,057	1.31
80 – 90	**256,971**	**0.23**	430,688	1.12
90 – 100	**143,266**	**0.20**	154,464	1.20
	19,585,781	**1.00**	31,089,010	1.57

Notes to the financial statements
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Note 36

Employee equity participation 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 31 March 2012 is 20,620,509 and as at 27 April 2012 is 20,494,287.

The market value of shares issued during the year as a result of the exercise of options was $0.8 million (2011: $1 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2012 was $570 million (2011: $1,137 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 the Company's personal dealing policy, options can be exercised after the vesting period during an options exercise period up to expiry. In individual cases, such as where an employee leaves with the Company's agreement towards the end of a vesting period, the Company's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of some or all of the relevant options.

For options granted to the members of MBL and MGL's Executive Committees, Executive Voting Directors and other Executive Directors where the invitation to apply for the options was sent to the Executive on or after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if the Company's average annual return on ordinary equity for the three previous financial years is above the 65th (Executive Committee and Executive Voting Directors) and 50th (other Executive Directors) percentiles, of the corresponding figures for all companies in the then S&P/ASX 100 Index, with the conditions to be examined only upon vesting.

Fully paid ordinary shares issued on the exercise of options rank pari passu with all other fully paid 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 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;
- other reorganisations.

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

For the year ended 31 March 2012, compensation expense relating to exchangeable shares, retention securities and option plans totalled $14 million (2011: $50 million).

Employee Share Plan

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

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

The latest offer under the ESP was made during December 2011. A total of 874 (2011: 1,347) staff participated in this offer. On 28 December 2011, the participants were each issued with 41 (2011: 24) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $23.81 (2011: $40.52), a total of 35,834 (2011: 32,328) shares were issued. The shares were issued for no cash consideration.

Note 36

Employee equity participation continued

Staff Share Acquisition Plan

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

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

The shares allocated under the MGSSAP were either newly issued shares or shares acquired on-market by the MGSSAP Plan Company, at the direction of the Company.

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

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

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

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

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

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

Notes to the financial statements
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continued

Note 36
Employee equity participation continued

In April 2008, a further sub-plan of the MGSSAP was created, the Macquarie Group Executive Committee Acquisition Plan, whereby members of the Company's Executive Committee were required to contribute certain proportions of their annual profit share to acquire Company shares, which must be held for at least three years. The first offers under this sub-plan were made in May 2008. The Company does not intend making any further allocations under this sub-plan, as Executive Committee members now receive the equity component of their retained profit share under the Macquarie Group Employee Retained Equity Plan.

No offers under the MGSSAP (including the Macquarie Group Executive Committee Acquisition Plan) were made during the year to 31 March 2012 (2011: Nil).

Non-Executive Director Share Acquisition Plan

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

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

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

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

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

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

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

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

No offers under the NEDSAP were made during the year ended 31 March 2012 (2011: Nil).

Other plans

The Consolidated Entity operates other local share-based compensation plans, none of which, individually or in aggregate are material.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m

Note 37

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Contingent liabilities exist in respect of:				
Guarantees	**387**	330	**1,200**	1,410
Indemnities	**–**	2	**–**	–
Letters of credit	**151**	122	**–**	–
Performance related contingents	**76**	89	**–**	–
Total contingent liabilities[1]	**614**	543	**1,200**	1,410
Commitments exist in respect of:				
Undrawn credit facilities	**4,289**	5,689	**–**	–
Forward asset purchases	**1,035**	1,627	**–**	–
Total commitments[2]	**5,324**	7,316	**–**	–
Total contingent liabilities and commitments	**5,938**	7,859	**1,200**	1,410

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

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

Note 38

Capital and other expenditure commitments

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Capital and other expenditure commitments expected to be incurred:				
Not later than one year	**155**	127	**–**	–
Later than one year and not later than five years	**13**	26	**–**	–
Later than five years	**1**	50	**–**	–
Total capital and other expenditure commitments	**169**	203	**–**	–

Note 39

Lease commitments

	Consolidated 2012 $m	Consolidated 2011 $m	Company 2012 $m	Company 2011 $m
Non-cancellable operating leases expiring:				
Not later than one year	**164**	158	**–**	–
Later than one year and not later than five years	**506**	598	**–**	–
Later than five years	**612**	707	**–**	–
Total operating lease commitments	**1,282**	1,463	**–**	–

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 2012
continued

Note 40
Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

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

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

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non–trading interest rate risk of the Consolidated Entity, which is hedged with interest rate swaps and cross currency swaps.

At 31 March 2012, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $51 million negative value (2011: $174 million negative value).

During the year the Consolidated Entity recognised $4 million gains (2011: $nil) in the income statement due to hedge ineffectiveness on cash flow hedges.

Fair value hedges: The Consolidated Entity's fair value hedges consist of:

– interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates; and

– foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2012, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $395 million positive value (2011: $486 million positive value).

During the year fair value losses on the hedging instruments of $91 million have been recognised (2011: $385 million gains), offset by $88 million (2011: $375 million losses) of gains on the hedged item.

Net investment in foreign operations hedges: The Consolidated Entity has applied net investment hedging for foreign exchange risk arising from its non–core foreign operations.

At 31 March 2012, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $14 million negative value (2011: $69 million positive value). During the year the Consolidated Entity recognised $2 million gains (2011: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

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

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

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

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

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

Note 41

Financial risk management

Risk Management Group

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

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

Note 41.1

Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not 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. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure that the most current information available on counterparties is taken into account.

Credit exposures for loans are evaluated as the full face value whereas exposures for derivatives are a function of potential market movements. When trading gives rise to settlement risk, this exposure is assessed as the full face value of the settlement amount. Credit exposures which fluctuate through the duration of the transaction are 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 customers' counterparty limits and 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. Credit limits and exposures are also allocated a Loss Given Default ratio reflecting the estimated economic loss in the event of default occurring.

All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch 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 to manage the facilities through the impairment and provisioning process.

The Consolidated Entity's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

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

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

Notes to the financial statements
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continued

Note 41.1
Credit risk continued

Maximum exposure to credit risk

The table below details the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets before the benefit of collateral and credit enhancements.

	Receivables from financial institutions $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Derivative assets $m
Australia				
Governments	–	1,952	924	348
Financial institutions	2,587	1,017	235	4,076
Other	–	–	48	1,299
Total Australia	2,587	2,969	1,207	5,723
Asia Pacific				
Governments	–	7	1,066	36
Financial institutions	1,389	54	311	232
Other	–	5	179	204
Total Asia Pacific	1,389	66	1,556	472
Europe, Middle East and Africa				
Governments	–	171	–	–
Financial institutions	2,128	1,569	143	9,327
Other	–	629	31	1,949
Total Europe, Middle East and Africa	2,128	2,369	174	11,276
Americas				
Governments	–	455	607	68
Financial institutions	4,808	1,500	565	2,490
Other	–	239	936	2,049
Total Americas	4,808	2,194	2,108	4,607
Total	10,912	7,598	5,045	22,078
Total gross credit risk				

[1] Classified based on the exposure to the underlying security borrowed.

Debt investment securities available for sale $m	Other assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Life investment contracts and other unitholder investment assets $m	Credit commitments and contingent liabilities $m	Total $m
						Consolidated 2012
2,996	312	68	885	–	–	7,485
7,005	36	652	323	561	24	16,516
54	2,403	23,319	1,543	66	1,702	30,434
10,055	2,751	24,039	2,751	627	1,726	54,435
39	106	1	–	–	–	1,255
610	–	349	38	–	1	2,984
–	2,045	344	–	–	114	2,891
649	2,151	694	38	–	115	7,130
76	425	1	42	–	–	715
3,728	–	761	1,462	–	297	19,415
349	3,332	3,744	88	–	665	10,787
4,153	3,757	4,506	1,592	–	962	30,917
–	377	33	–	–	–	1,540
817	–	2,006	2	–	225	12,413
136	3,598	13,940	77	–	2,910	23,885
953	3,975	15,979	79	–	3,135	37,838
15,810	12,634	45,218	4,460	627	5,938	130,320
						130,320

Notes to the financial statements
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continued

Note 41.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Derivative assets $m
Australia				
Governments	–	302	1,566	239
Financial institutions	2,870	1,226	334	773
Other	–	5	70	965
Total Australia	2,870	1,533	1,970	1,977
Asia Pacific				
Governments	–	3	614	8
Financial institutions	1,283	45	408	241
Other	–	1	69	302
Total Asia Pacific	1,283	49	1,091	551
Europe, Middle East and Africa				
Governments	–	217	174	3
Financial institutions	2,666	3,862	139	8,372
Other	–	293	43	2,499
Total Europe, Middle East and Africa	2,666	4,372	356	10,874
Americas				
Governments	–	916	329	64
Financial institutions	2,998	1,445	670	5,379
Other	–	475	1,638	2,340
Total Americas	2,998	2,836	2,637	7,783
Total	9,817	8,790	6,054	21,185
Total gross credit risk				

[1] Classified based on the exposure to the underlying security borrowed.

Debt investment securities available for sale $m	Other assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Life investment contracts and other unitholder investment assets $m	Credit commitments and contingent liabilities $m	Total $m
						Consolidated 2011
2,301	234	526	2,555	–	–	7,723
6,259	–	847	924	565	166	13,964
177	2,475	24,306	2,439	93	2,266	32,796
8,737	2,709	25,679	5,918	658	2,432	54,483
9	30	2	–	–	–	666
559	–	320	29	–	48	2,933
1	2,803	326	–	–	116	3,618
569	2,833	648	29	–	164	7,217
142	474	–	40	–	–	1,050
3,052	37	780	2,473	–	235	21,616
476	2,502	3,201	37	–	1,037	10,088
3,670	3,013	3,981	2,550	–	1,272	32,754
112	88	63	250	–	–	1,822
870	–	2,163	298	–	142	13,965
552	2,907	13,482	81	–	3,849	25,324
1,534	2,995	15,708	629	–	3,991	41,111
14,510	11,550	46,016	9,126	658	7,859	135,565
						135,565

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41.1
Credit risk continued

Maximum exposure to credit risk continued

	Other assets $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
				Company 2012
Australia				
Governments	**24**	**–**	**–**	**24**
Other	**3**	**7,315**	**359**	**7,677**
Total Australia	**27**	**7,315**	**359**	**7,701**
Asia Pacific				
Other	**–**	**2**	**350**	**352**
Total Asia Pacific	**–**	**2**	**350**	**352**
Europe, Middle East and Africa				
Other	**–**	**–**	**462**	**462**
Total Europe, Middle East and Africa	**–**	**–**	**462**	**462**
Americas				
Other	**–**	**–**	**29**	**29**
Total Americas	**–**	**–**	**29**	**29**
Total	**27**	**7,317**	**1,200**	**8,544**
Total gross credit risk				**8,544**
				Company 2011
Australia				
Other	3	9,529	380	9,912
Total Australia	3	9,529	380	9,912
Asia Pacific				
Other	–	–	484	484
Total Asia Pacific	–	–	484	484
Europe, Middle East and Africa				
Other	–	–	443	443
Total Europe, Middle East and Africa	–	–	443	443
Americas				
Other	–	1	103	104
Total Americas	–	1	103	104
Total	3	9,530	1,410	10,943
Total gross credit risk				10,943

Note 41.1

Credit risk continued

Collateral and credit enhancements held

Cash collateral on securities borrowed and reverse repurchase agreements

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

Loan assets held at amortised cost:

Residential mortgage loans

Residential mortgages are secured by fixed charges over a borrower's property. Further, Macquarie obtains lender's mortgage insurance (LMI) to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. In Australia and Canada, LMI is taken out for all mortgages to cover 100 per cent of the original principal plus interest. In the USA, LMI is taken out only for loans with Loan to Value Ratio (LVR) higher than 80 per cent at origination. Substantially all the Americas portfolio consists of Canadian mortgages. Further included in the mortgage loan balance is $12,935 million (2011: $13,463 million) which have been securitised.

The tables below provide information on LVRs determined using current loan balances and the valuation at the time the mortgage was financed.

	2012		2011	
	Australia $m	**Americas $m**	Australia $m	Americas $m
Fully collateralised				
Loan to value ratio				
Less than 25%	**451**	**27**	478	29
25% to 50%	**1,711**	**329**	1,827	356
51% to 75%	**3,838**	**1,479**	4,211	1,573
76% to 90%	**3,638**	**4,433**	3,915	4,320
91% to 100%	**903**	**2,666**	1,011	2,902
Partly collateralised	**45**	**1**	40	1
Total mortgages	**10,586**	**8,935**	11,482	9,181

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Relationship Banking provides mortgages to clients in Australia, usually high net worth individuals. These loans are secured by fixed charges over the borrowers' residential property. Of the mortgage balance of $1,151million (2011:$1,085 million), $161 million (2011:$271 million) has a LVR of 50 per cent or less, $828 million (2011:$739 million) has an LVR of between 50 and 75 per cent and $140 million, (2011:$73 million) an LVR of between 75 and 100 per cent. $22 million, (2011:$2 million) is partly secured with and LVR greater than 100 per cent.

Notes to the financial statements
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continued

Note 41.1
Credit risk continued

Investment and insurance premium lending

Macquarie lends to clients for investment, and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the investments as collateral and obtains additional cash margin to maintain limits. Other investment lending is backed by cash deposits from the client. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. Of the investment and insurance premium lending portfolio of $1,812 million (2011: $ 2,133 million), $1,698 million, (2011: $2,025 million) is fully collateralised.

Lease and retail financing

Macquarie leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Title to the underlying fixed assets are held by Macquarie as collateral. Of the lease and retail finance portfolio of $6,869 million (2011: $7,507 million), the credit exposure after considering the depreciated value of collateral is $2,061 million (2011: $2,252 million).

Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured rights over specified assets of the counterparty, often in the form of commercial property, land rights and other assets. Of the term lending of $11,302 million (2011: $9,117 million), the credit exposure after collateral and credit enhancements is $3,089 million (2011: $2,938 million).

Additional collateral

Macquarie excludes other types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable values are insufficiently certain and therefore are assigned no amount for disclosure purposes.

Trading portfolio assets

Certain trading portfolio assets related to debt securities are covered partly or fully by credit default swap (CDS) contracts, which protect the holder in the event of a default of the underlying security. The creditworthiness of the counterparty to the CDS is higher than that of the counterparty to the asset. Assets carried at $510 million, (2011: $449 million) are covered by CDS contracts with a notional of $451 million (2011: $375 million).

Other financial assets at fair value through profit or loss

Included in Other financial assets at fair value through profit or loss is financing provided to clients for investing, which had a carrying value at balance date of $2,241 million (2011 $3,352 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 fulfil obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or stock, and provide daily variation margins usually in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. Macquarie has exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2012 of $8,909 million (2011: $7,179 million). Macquarie has also placed initial and variation cash margins with exchanges, the balance at 31 March 2012 being $1,740 million (2011: $3,008 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

For Over The Counter (OTC) derivative contracts, Macquarie often has master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. Master netting arrangements are generally insufficient to allow offset in the Statement of Financial Position. However, the credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement (e.g. derivatives and cash margins) to be terminated and settled on a net basis. Macquarie also often executes a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2012, Macquarie held OTC contracts with a positive replacement value of $12,935 million (2011: $13,839 million) and held margins of $1,201 million (2011: $1,204 million) covering these contracts. The credit risk of these contracts is further reduced due to master netting agreements covering negative OTC contracts of $6,948 million (2011: $8,465 million), and collateral placed of $1,943 million (2011: $1,764 million).

Note 41.1

Credit risk continued

Other assets

Brokerage receivables of $7,115 million (2011: $5,613 million) are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). Macquarie holds the underlying equity security as collateral until settled, which is usually less than 3 days after trade.

Debt investments securities available for sale

Included in Australia – Governments are holdings of $1,403 million (2011: $2,852 million) issued by Australian banks which are subject to an Australian Government Guarantee. Further, Australia and the Americas - Financial Institutions, 2012: $438 million (2011: $200 million) is secured by specified Australian and Canadian assets under covered bonds.

Life investment contracts and other unitholder investment assets

Life investment contracts and unitholder investments back policy holder liabilities of $627 million (2011: $658 million), and therefore the credit risks on these assets are borne by policy holders.

Credit commitments and contingent liabilities.

Of the Undrawn facilities and lending commitments of $4,289 million (2011: $5,689 million), $2,419 million (2011: $2,503 million) are fully secured by underlying specific assets.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41.1
Credit risk continued

Credit quality of financial assets

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

Credit quality – Consolidated 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	10,613	299	–	–	–	10,912
Cash collateral on securities borrowed and reverse repurchase agreements						7,598
Governments	2,081	504	–	–	–	2,585
Financial institutions	3,326	814	–	–	–	4,140
Other	787	86	–	–	–	873
Trading portfolio assets						5,045
Governments	2,490	107	–	–	–	2,597
Financial institutions	957	290	7	–	–	1,254
Other	187	973	34	–	–	1,194
Derivative assets						22,078
Governments	438	14	–	–	–	452
Financial institutions	15,393	732	–	–	–	16,125
Other	2,588	2,913	–	–	–	5,501
Debt investment securities available for sale						15,810
Governments	3,111	–	–	–	–	3,111
Financial institutions	12,093	67	–	–	–	12,160
Other	65	473	–	–	1	539
Other assets						12,634
Governments	1,220	–	–	–	–	1,220
Financial institutions	–	–	–	–	36	36
Other	6,900	3,484	13	743	238	11,378
Loan assets held at amortised cost						45,218
Governments	94	9	–	–	–	103
Financial institutions	2,669	1,096	3	–	–	3,768
Other	21,499	17,932	228	–	1,688	41,347
Other financial assets at fair value through profit or loss						4,460
Governments	927	–	–	–	–	927
Financial institutions	1,822	3	–	–	–	1,825
Other	266	1,417	–	–	25	1,708
Life investment contracts and other unitholder investment assets						627
Financial institutions	561	–	–	–	–	561
Other	66	–	–	–	–	66
Total						124,382

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

Note 41.1

Credit risk continued

Credit quality of financial assets continued

Credit quality – Consolidated 2011

	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	9,428	389	–	–	–	9,817
Cash collateral on securities borrowed and reverse repurchase agreements						8,790
Governments	793	645	–	–	–	1,438
Financial institutions	5,142	1,436	–	–	–	6,578
Other	663	111	–	–	–	774
Trading portfolio assets						6,054
Governments	2,292	391	–	–	–	2,683
Financial institutions	1,060	472	19	–	–	1,551
Other	222	1,532	66	–	–	1,820
Derivative assets						21,185
Governments	295	19	–	–	–	314
Financial institutions	14,096	669	–	–	–	14,765
Other	2,904	3,202	–	–	–	6,106
Debt investment securities available for sale						14,510
Governments	2,564	–	–	–	–	2,564
Financial institutions	10,708	32	–	–	–	10,740
Other	346	829	–	–	31	1,206
Other assets						11,550
Governments	825	–	–	–	1	826
Financial institutions	–	–	–	–	37	37
Other	7,319	2,778	–	505	85	10,687
Loan assets held at amortised cost						46,016
Governments	585	6	–	–	–	591
Financial institutions	2,913	1,168	7	–	22	4,110
Other	25,725	13,598	196	–	1,796	41,315
Other financial assets at fair value through profit or loss						9,126
Governments	2,845	–	–	–	–	2,845
Financial institutions	3,696	28	–	–	–	3,724
Other	681	1,851	–	–	25	2,557
Life investment contracts and other unitholder investment assets						658
Financial institutions	565	–	–	–	–	565
Other	93	–	–	–	–	93
Total						127,706

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

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41.1
Credit risk continued

Credit quality of financial assets continued

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

Credit quality – Company 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**
Other assets						**27**
Governments	**24**	**–**	**–**	**–**	**–**	**24**
Other	**3**	**–**	**–**	**–**	**–**	**3**
Due from subsidiaries						**7,317**
Other	**7,272**	**–**	**–**	**45**	**–**	**7,317**
Total						**7,344**

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

Credit quality – Company 2011

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Other assets						3
Other	3	–	–	–	–	3
Due from subsidiaries						9,530
Other	9,508	–	–	22	–	9,530
Total						9,533

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

Financial assets whose terms have been renegotiated

The table below includes the carrying value, as at the reporting date, of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

	Consolidated 2012 $m	Consolidated 2011 $m	**Company 2012 $m**	Company 2011 $m
Loan assets held at amortised cost				
Other	**24**	56	**–**	–

Note 41.1

Credit risk continued

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

	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	Fair value of collateral held $m
							Consolidated 2012
Debt investment securities available for sale							
Other	–	–	–	–	1	1	–
Other assets							
Financial institutions	34	2	–	–	–	36	29
Other	167	28	11	–	32	238	31
Loan assets held at amortised cost							
Other	730	171	187	243	357	1,688	1,977
Other financial assets at fair value through profit or loss							
Other	3	3	3	–	16	25	22
Total	934	204	201	243	406	1,988	2,059

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in note 1(xiii) – Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $1,126 million (2011: $1,265 million) relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

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

Repossessed collateral

In the event of customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. As at balance date, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of $297 million (2011: $413 million). These assets are in the process of being sold.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41.1
Credit risk continued

Ageing analysis of assets past due but not impaired and impaired assets 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	Fair value of collateral held $m
							Consolidated 2011
Debt investment securities available for sale							
Other	–	–	–	–	31	31	–
Other assets							
Government	1	–	–	–	–	1	–
Financial institutions	36	1	–	–	–	37	35
Other	30	34	8	1	12	85	2
Loan assets held at amortised cost							
Financial institutions	–	–	–	–	22	22	–
Other	924	219	102	233	318	1,796	2,295
Other financial assets at fair value through profit or loss							
Other	–	–	–	–	25	25	20
Total	991	254	110	234	408	1,997	2,352

Note 41.2
Liquidity risk

Liquidity management

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee 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 Managing Director and Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer, Group Treasurer and Operating Group Heads.

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

Liquidity policy

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

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

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

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

Note 41.2

Liquidity risk continued

Scenario analysis

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

The scenarios separately consider the requirements of the banking group, non-banking group and the consolidated group. They are run over a number of timeframes and a range of conservative assumptions are used regarding 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 also complies with regulatory minimum requirements.

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

Liquidity contingency plan

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

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

Macquarie is a global financial institution, with operating subsidiaries and regulated banking subsidiaries in a variety of countries. Regulations in certain countries may require some subsidiaries to have a local contingency plan specific to that region. Where that is the case, the liquidity contingency plan contains a supplement providing the necessary region-specific information required for those 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 Operating Groups that provide long term stable funding.

Contractual undiscounted cash flows

The following tables below summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay and the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41.2
Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Consolidated 2012
Cash collateral on securities lent and repurchase agreements	1,422	3,307	97	–	–	4,826
Trading portfolio liabilities	–	3,615	–	–	–	3,615
Derivative financial instruments (trading)	–	20,574	–	–	–	20,574
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	5,933	2,888	3,248	1,142	13,211
Contractual amounts receivable	–	(5,738)	(2,820)	(3,433)	(1,193)	(13,184)
Deposits	27,941	5,883	3,130	344	23	37,321
Other liabilities[1]	–	12,941	–	–	–	12,941
Payables to financial institutions	108	1,509	1,400	4,897	632	8,546
Other financial liabilities at fair value through profit or loss	8	721	956	1,013	91	2,789
Life investment contracts and other unitholder liabilities	–	5,897	–	–	–	5,897
Debt issued at amortised cost[2]	–	7,434	5,251	25,333	4,986	43,004
Macquarie Convertible Preference Securities	–	33	33	631	–	697
Subordinated debt	–	326	111	1,268	2,198	3,903
Total undiscounted cash flows	29,479	62,435	11,046	33,301	7,879	144,140
Contingent liabilities	–	614	–	–	–	614
Commitments	–	4,632	692	–	–	5,324
Total undiscounted contingent liabilities and commitments[3]	–	5,246	692	–	–	5,938

[1] Excludes items that are not financial instruments and non-contractual accruals and provisions.

[2] Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

[3] Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

Note 41.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Consolidated 2011
Cash collateral on securities lent and repurchase agreements	3,227	3,390	–	–	–	6,617
Trading portfolio liabilities	–	5,808	–	–	–	5,808
Derivative financial instruments (trading)	–	20,973	–	–	–	20,973
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	7,485	2,008	3,299	624	13,416
Contractual amounts receivable	–	(7,548)	(2,243)	(3,724)	(926)	(14,441)
Deposits	26,642	5,615	2,781	337	14	35,389
Other liabilities[1]	–	11,979	–	–	–	11,979
Payables to financial institutions	442	374	2,669	4,627	617	8,729
Other financial liabilities at fair value through profit or loss	244	1,109	1,618	1,365	84	4,420
Life investment contracts and other unitholder liabilities	–	5,055	–	–	–	5,055
Debt issued at amortised cost[2]	–	6,161	6,665	26,363	6,290	45,479
Macquarie Convertible Preference Securities	–	33	33	695	–	761
Subordinated debt	–	18	800	851	1,154	2,823
Total undiscounted cash flows	30,555	60,452	14,331	33,813	7,857	147,008
Contingent liabilities	–	543	–	–	–	543
Commitments	–	7,258	58	–	–	7,316
Total undiscounted contingent liabilities and commitments[3]	–	7,801	58	–	–	7,859

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

2 Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

3 Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 41.2
Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Company 2012
Deposits	**–**	**50**	**–**	**–**	**–**	**50**
Payables to financial institutions	**–**	**–**	**915**	**2,482**	**–**	**3,397**
Due to subsidiaries	**909**	**164**	**–**	**–**	**–**	**1,073**
Debt issued at amortised cost	**–**	**233**	**188**	**1,957**	**3,570**	**5,948**
Total undiscounted cash flows	**909**	**447**	**1,103**	**4,439**	**3,570**	**10,468**
Contingent liabilities	**–**	**1,200**	**–**	**–**	**–**	**1,200**
Total undiscounted contingent liabilities[1]	**–**	**1,200**	**–**	**–**	**–**	**1,200**
						Company 2011
Deposits	–	48	–	–	–	48
Payables to financial institutions	–	243	2,367	2,204	–	4,814
Due to subsidiaries	1,025	934	–	–	–	1,959
Debt issued at amortised cost	–	62	281	2,195	3,346	5,884
Total undiscounted cash flows	1,025	1,287	2,648	4,399	3,346	12,705
Contingent liabilities	–	1,410	–	–	–	1,410
Total undiscounted contingent liabilities[1]	–	1,410	–	–	–	1,410

[1] Cash flows on contingent liabilities are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

Note 41.3

Market risk

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

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

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

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

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

RMG sets three complementary limit structures:

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

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for the financial year ended 31 March 2012
continued

Note 41.3
Market risk continued

Value-at-Risk (VaR) figures

The table below shows the average, maximum and minimum VaR over the year for the major markets in which the Consolidated Entity operates. The VaR shown in the table is based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2012 Average $m	2012 Maximum $m	2012 Minimum $m	2011 Average $m	2011 Maximum $m	2011 Minimum $m
						Consolidated
Equities	7.26	10.03	4.26	9.53	19.30	4.35
Interest rates	10.91	14.72	8.00	5.83	10.72	3.67
Foreign exchange and bullion	2.36	6.22	0.86	3.61	10.55	1.08
Commodities	9.53	15.11	6.41	11.64	16.34	7.63
Aggregate	14.99	19.57	11.07	16.00	23.50	11.04

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 $3 million (2011: $3 million) respectively.

Other than the volatility on the derivatives described above, there are no material non-traded interest rate risks within the Consolidated Entity.

Note 41.3

Market risk continued

Foreign currency risk

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

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

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

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

The hedging policy of the Consolidated Entity is designed to reduce the sensitivity of the Consolidated Entity's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD, GBP, HKD and CAD.

	2012		2011	
	Movement in exchange rates %	**Sensitivity of equity after tax \$m**	Movement in exchange rates %	Sensitivity of equity after tax \$m
				Consolidated
Australian dollar	**+10**	**(366.5)**	+10	(326.2)
Australian dollar	**-10**	**447.9**	–10	398.6

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Note 41.3
Market risk continued

Equity price risk

The table below indicates the equity markets to which the Consolidated Entity had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

	2012			2011		
Geographic region	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m
						Consolidated
Listed						
Australia	**+10**	**1.5**	**99.8**	+10	3.3	117.6
Asia Pacific	**+10**	**–**	**0.9**	+10	–	5.1
Europe, Middle East and Africa	**+10**	**1.4**	**4.8**	+10	1.5	4.1
Americas	**+10**	**2.2**	**15.3**	+10	4.0	11.3
Unlisted	**+10**	**1.3**	**49.8**	+10	0.2	41.2
Listed						
Australia	**–10**	**(1.5)**	**(99.8)**	–10	(3.3)	(117.6)
Asia Pacific	**–10**	**–**	**(0.9)**	–10	–	(5.1)
Europe, Middle East and Africa	**–10**	**(0.4)**	**(4.8)**	–10	(1.5)	(4.1)
Americas	**–10**	**(0.1)**	**(15.3)**	–10	(3.5)	(11.3)
Unlisted	**–10**	**(0.6)**	**(49.8)**	–10	(0.2)	(41.2)

Note 42

Average interest bearing assets and liabilities and related interest

	Consolidated 2012			Consolidated 2011		
	Average balance $m	Income/ (expense) $m	Average rate %	Average balance $m	Income/ (expense) $m	Average rate %
Assets						
Interest bearing assets						
Receivables from financial institutions	**8,924**	**218**	**2.4**	8,169	215	2.6
Cash collateral on securities borrowed and reverse repurchase agreements	**8,010**	**176**	**2.2**	8,982	162	1.8
Trading portfolio assets	**8,967**	**313**	**3.5**	8,121	345	4.2
Investment securities available for sale	**15,586**	**838**	**5.4**	14,524	720	5.0
Loan assets held at amortised cost	**48,073**	**3,390**	**7.0**	47,437	3,174	6.7
Other financial assets at fair value through profit or loss	**6,574**	**418**	**6.3**	9,330	672	7.2
Interest in associates and joint ventures accounted for using the equity method	**286**	**15**	**5.6**	338	16	4.7
Total interest bearing assets	**96,420**	**5,368**		96,901	5,304	
Total non-interest bearing assets	**63,806**			58,923		
Total assets	**160,226**			155,824		
Liabilities						
Interest bearing liabilities						
Cash collateral on securities lent and repurchase agreements	**7,768**	**(250)**	**3.2**	7,432	(327)	4.4
Trading portfolio liabilities	**1,757**	**(63)**	**3.6**	1,720	(53)	3.1
Deposits	**37,378**	**(1,458)**	**3.9**	31,749	(1,190)	3.7
Other liabilities	**977**	**(6)**	**0.6**	522	(2)	0.4
Other financial liabilities at fair value through profit or loss	**4,423**	**(103)**	**2.3**	4,209	(164)	3.9
Payables to financial institutions	**8,447**	**(353)**	**4.2**	9,664	(463)	4.8
Debt issued at amortised cost	**40,028**	**(1,551)**	**3.9**	41,858	(1,688)	4.0
Loan capital	**3,444**	**(251)**	**7.3**	2,339	(142)	6.1
Total interest bearing liabilities	**104,222**	**(4,035)**		99,493	(4,029)	
Total non-interest bearing liabilities	**44,562**			44,701		
Total liabilities	**148,784**			144,194		
Net assets	**11,442**			11,630		
Equity						
Contributed equity						
Ordinary share capital	**7,223**			7,063		
Treasury shares	**(1,057)**			(666)		
Exchangeable shares	**87**			117		
Reserves	**128**			331		
Retained earnings	**4,536**			4,239		
Total capital and reserves attributable to ordinary equity holders of MGL	**10,917**			11,084		
Non-controlling interest	**525**			546		
Total equity	**11,442**			11,630		

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for the financial year ended 31 March 2012
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Note 43

Fair values of financial assets and liabilities

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

Note 43

Fair values of financial assets and liabilities continued

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

– the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
– the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
– the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates;
– the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower;
– the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread;
– substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and
– in the separate financial statements of the Company, the fair value of balances due from/to subsidiaries is approximated by their carrying amount as the balances are generally receivable/payable on demand.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 43
Fair values of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Company:

	2012 Carrying value $m	2012 Fair value $m	2011 Carrying value $m	2011 Fair value $m
				Consolidated
Assets				
Receivables from financial institutions	**10,912**	**10,912**	9,817	9,817
Loan assets held at amortised cost	**45,218**	**45,655**	46,016	46,059
Total assets	**56,130**	**56,567**	55,833	55,876
Liabilities				
Deposits	**37,169**	**37,164**	35,338	35,387
Payables to financial institutions	**7,803**	**7,618**	7,810	7,796
Debt issued at amortised cost	**39,713**	**39,469**	41,177	41,523
Loan capital at amortised cost	**3,193**	**3,180**	2,427	2,460
Total liabilities	**87,878**	**87,431**	86,752	87,166
				Company
Assets				
Due from subsidiaries	**7,317**	**7,317**	9,530	9,530
Total assets	**7,317**	**7,317**	9,530	9,530
Liabilities				
Deposits	**50**	**50**	52	52
Payables to financial institutions	**3,178**	**2,985**	4,451	4,375
Due to subsidiaries	**1,072**	**1,072**	1,951	1,989
Debt issued at amortised cost	**4,459**	**4,409**	4,116	4,186
Total liabilities	**8,759**	**8,516**	10,570	10,602

Note 43

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				Consolidated 2012
Assets				
Trading portfolio assets	**7,901**	**4,336**	**452**	**12,689**
Derivative assets	**4,726**	**17,214**	**138**	**22,078**
Investment securities available for sale	**15,775**	**1,938**	**553**	**18,266**
Other financial assets at fair value through profit or loss	**2,033**	**4,512**	**170**	**6,715**
Life investment contracts and other unitholder investment assets	**1,406**	**4,498**	**–**	**5,904**
Total assets	**31,841**	**32,498**	**1,313**	**65,652**
Liabilities				
Trading portfolio liabilities	**2,496**	**1,119**	**–**	**3,615**
Derivative liabilities	**4,229**	**16,697**	**96**	**21,022**
Other financial liabilities at fair value through profit or loss	**8**	**2,615**	**110**	**2,733**
Life investment contracts and other unitholder liabilities	**1,412**	**4,485**	**–**	**5,897**
Subordinated debt at fair value through profit or loss	**–**	**150**	**–**	**150**
Total liabilities	**8,145**	**25,066**	**206**	**33,417**
				Consolidated 2011
Assets				
Trading portfolio assets	10,312	4,097	489	14,898
Derivative assets	3,465	17,481	239	21,185
Investment securities available for sale	14,628	1,829	594	17,051
Other financial assets at fair value through profit or loss	5,577	5,800	291	11,668
Life investment contracts and other unitholder investment assets	1,198	3,861	–	5,059
Total assets	35,180	33,068	1,613	69,861
Liabilities				
Trading portfolio liabilities	4,462	1,346	–	5,808
Derivative liabilities	3,768	17,629	175	21,572
Other financial liabilities at fair value through profit or loss	45	4,142	152	4,339
Life investment contracts and other unitholder liabilities	1,201	3,854	–	5,055
Subordinated debt at fair value through profit or loss	–	467	–	467
Total liabilities	9,476	27,438	327	37,241

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 43
Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial year ended 31 March 2012:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the financial year	489	594
Purchases	355	192
Sales	(369)	(78)
Issues	–	–
Settlements	–	(37)
Net transfers into/out of level 3	(16)	(89)
Fair value (losses)/gains recognised in the income statement[1]	(7)	(33)
Fair value gains recognised in other comprehensive income[1]	–	4
Balance at the end of the financial year	452	553
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1]	8	(13)

[1] The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2.

[2] The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are $138 million (2011: $239 million) and derivative liabilities are $96 million (2011: $175 million).

Other financial assets at fair value through profit or loss $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Consolidated 2012
291	–	(152)	64	1,286
1	–	–	6	554
(55)	–	16	(13)	(499)
–	–	(1)	(19)	(20)
(12)	–	37	(54)	(66)
16	–	(8)	32	(65)
(71)	–	(2)	26	(87)
–	–	–	–	4
170	–	(110)	42	1,107
(38)	–	4	1	(38)

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 43

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

The following table reconciles the balances in Level 3 of the fair value hierarchy for the Consolidated Entity for the financial year ended 31 March 2011:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the financial year	424	526
Purchases	306	225
Sales	(273)	(89)
Issues	–	–
Settlements	–	(16)
Net transfers into/out of Level 3	(69)	(36)
Fair value gains/(losses) recognised in the income statement[1]	101	(18)
Fair value gains recognised in other comprehensive income[1]	–	2
Balance at the end of the financial year	489	594
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year[1]	88	–

[1] The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Level 1 and/or 2.

[2] The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are $239 million (2010: $276 million) and derivative liabilities are $175 million (2010: $428 million).

Other financial assets at fair value through profit or loss $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Consolidated 2011
315	(3)	(58)	(152)	1,052
86	–	(12)	30	635
(34)	–	46	(98)	(448)
7	–	(15)	(59)	(67)
(123)	–	5	44	(90)
66	3	(118)	128	(26)
(26)	–	–	171	228
–	–	–	–	2
291	–	(152)	64	1,286
2	–	–	(4)	86

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 43
Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity did not have significant transfers between Level 1 and 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the year.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Consolidated 2012 $m	Consolidated 2011 $m
Balance at the beginning of the financial year	**27**	38
Deferral on new transactions	**22**	17
Amounts recognised in the income statement during the year	**(34)**	(28)
Balance at the end of the financial year	**15**	27

Sensitivity analysis of valuations using unobservable inputs

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

	Favourable changes		Unfavourable changes	
	Profit and loss $m	Equity $m	Profit and loss $m	Equity $m
Product type			**Consolidated 2012**	
Equity and equity linked products	**21**	**52**	**(24)**	**(30)**
Commodity products	**16**	**–**	**(15)**	**–**
Credit products	**2**	**–**	**(2)**	**–**
Interest rate products	**6**	**–**	**(6)**	**–**
Total	**45**	**52**	**(47)**	**(30)**
Product type			Consolidated 2011	
Equity and equity linked products	25	20	(31)	(3)
Asset backed products	16	13	(15)	(4)
Commodity products	17	–	(16)	–
Credit products	3	–	(3)	–
Interest rate products	1	–	(1)	–
Total	62	33	(66)	(7)

Note 44

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Company and Consolidated Entity, PwC, and its related practices earned the following remuneration:

	Consolidated 2012 $'000	Consolidated 2011 $'000	**Company 2012 $'000**	Company 2011 $'000
PwC – Australian firm				
Audit and review of financial reports of the Company or any subsidiary of the Company	**6,761**	6,309	**16**	15
Other audit-related work	**1,484**	1,311	**–**	–
Other assurance services	**1,533**	1,527	**335**	287
Total audit and other assurance services	**9,778**	9,147	**351**	302
Advisory services	**111**	349	**–**	–
Taxation	**773**	444	**–**	–
Total remuneration paid to PwC – Australian firm	**10,662**	9,940	**351**	302
Related practices of PwC – Australian firm (including PwC – overseas firms)				
Audit and review of financial reports of the Company or any subsidiary of the Company	**10,611**	7,672	**–**	–
Other audit-related work	**49**	72	**–**	–
Other assurance services	**121**	236	**–**	–
Total audit and other assurance services	**10,781**	7,980	**–**	–
Advisory services	**10**	79	**–**	–
Taxation	**1,679**	1,813	**–**	–
Total remuneration paid to related practices of PwC – Australian firm	**12,470**	9,872	**–**	–
Total remuneration paid to PwC (note 2)	**23,132**	19,812	**351**	302

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Company's Auditor Independence policy. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for advisory services are in relation to Initial Public Offerings and due diligence services for new funds. These fees may be recovered by the Consolidated Entity upon the successful establishment of the funds.

It is the Company's policy to seek competitive tenders for all major advisory projects.

Notes to the financial statements
for the financial year ended 31 March 2012
continued

Note 45
Acquisitions and disposals of subsidiaries and businesses

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

Utility Metering Services Limited

On 24 October 2011, a subsidiary of the Company acquired 100 per cent interest in UK based company, Utility Metering Services Limited.

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

Macquarie Korea Asset Management Co. Limited, Regal Capital Advisors LLC, Regal Capital Group LLC, SCC Swiss Commercial Capital AG and Tax Ease Holdings LLC.

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

	2012 $m	2011 $m
Fair value of net assets acquired		
Cash, other financial assets and other assets	164	4,833
Goodwill and other intangible assets	78	91
Property, plant and equipment	454	2,370
Assets of disposal groups classified as held for sale	–	5
Payables, provisions, borrowings and other liabilities	(185)	(6,857)
Liabilities of disposal groups classified as held for sale	–	(4)
Non-controlling interests	(2)	(4)
Total fair value of net assets acquired	509	434
Consideration		
Cash consideration	476	231
Deferred consideration	6	–
Fair value of previously held interest	27	126
Total consideration	509	357
Net cash flow		
Cash consideration	(476)	(231)
Less:		
Cash and cash equivalents acquired	25	1,609
Net cash (outflow)/inflow	(451)	1,378

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 $4 million and revenue of $24 million from Utility Metering Services Limited since the date of acquisition. If this acquisition had taken place on 1 April 2011, the impact on the current year results for the Consolidated Entity would have been profit of $7 million and revenue of $52 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 2011 comparatives principally relate to Macquarie AirFinance Limited and Sal. Oppenheim jr. & Cie, being the significant entities and businesses acquired or consolidated due to acquisition of control.

Note 45

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities and businesses disposed of or deconsolidated due to loss of control:

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:

Biocarbon Group Pte. Limited, Cruzeiro do Sul Graos Limitada, Energy Assets Group PLC, Fifi Investments Limited, Garrison Energy Center LLC, Lawson Grains Limited, Municipal and Infrastructure Assurance Corporation, Samchully Asset Management Company Limited, SurePark Pty Limited and Taurus Aerospace Holdings, LLC.

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

	2012 $m	2011 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash, other financial assets and other assets	**97**	133
Goodwill and other intangible assets	**23**	24
Property, plant and equipment	**61**	513
Assets of disposal groups classified as held for sale	**–**	45
Payables, provisions, borrowings and other liabilities	**(92)**	(441)
Liabilities of disposal groups classified as held for sale	**–**	(40)
Non-controlling interests	**–**	(9)
Total carrying value of assets and liabilities disposed of or deconsolidated	**89**	225
Consideration		
Cash consideration	**116**	157
Consideration received in equity	**40**	86
Total consideration	**156**	243
Net cash flow		
Cash consideration	**116**	157
Less:		
Cash and cash equivalents disposed of or deconsolidated	**(4)**	(65)
Net cash inflow	**112**	92

The 31 March 2011 comparatives relate principally to Macquarie Asset Leasing Trust, being the significant entity deconsolidated due to loss of control.

Note 46

Events after the Reporting Period

There were no material events subsequent to 31 March 2012 that have not been reflected in the financial statements.

Macquarie Group Limited
Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 95 to 207 are in accordance with the *Corporations Act 2001 (Cth)* including:

(i) complying with the accounting standards; and

(ii) giving a true and fair view of the Company and Consolidated Entity's financial position as at 31 March 2012 and performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable; and

c) the financial statements also comply with International Financial Reporting Standards (see note 1(i) set out on page 104).

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001 (Cth).*

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

H Kevin McCann, AM
Independent Director and
Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
27 April 2012

Independent audit report
To the members of Macquarie Group Limited

Report on the financial report

We have audited the accompanying financial report of Macquarie Group Limited (the Company), which comprises the statement of financial position as at 31 March 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Group Limited and the Macquarie Group (the Consolidated Entity). The Consolidated Entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001 (Cth)* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Independence

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

Auditor's opinion

In our opinion:

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

   (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 March 2012 and of their performance for the year ended on that date; and

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

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

Independent audit report
To the members of Macquarie Group Limited
continued

pwc

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 40 to 86 of the directors' report for the year ended 31 March 2012. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001 (Cth)*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Group Limited for the year ended 31 March 2012, complies with section 300A of the *Corporations Act 2001 (Cth)*.

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
27 April 2012

Macquarie Group Limited
Ten year history

With the exception of 31 March 2005, the financial information presented below has been based on the Australian Accounting Standards adopted at the end of each balance date. The financial information for the full years ended 31 March 2005 – 2012 is based on the reported results using the Australian Accounting Standards that also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Years ended 31 March	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
Income statement ($ million)										
Total income	2,155	2,823	4,197	4,832	7,181	8,248	5,526	6,638	7,665	**6,963**
Total expenses	(1,695)	(2,138)	(3,039)	(3,545)	(5,253)	(6,043)	(4,537)	(5,344)	(6,394)	**(5,914)**
Operating profit before income tax	460	685	1,158	1,287	1,928	2,205	989	1,294	1,271	**1,049**
Income tax expense	(96)	(161)	(288)	(290)	(377)	(317)	(15)	(201)	(282)	**(287)**
Profit for the year	364	524	870	997	1,551	1,888	974	1,093	989	**762**
Macquarie Income Securities distributions	(28)	(27)	(29)	(29)	(31)	(34)	(33)	(21)	(26)	**(26)**
Macquarie Income Preferred Securities distributions	–	–	(28)	(51)	(54)	(50)	(45)	(8)	(4)	**(4)**
Other non-controlling interests	(3)	(3)	(1)	(1)	(3)	(1)	(25)	(14)	(3)	**(2)**
Profit attributable to ordinary equity holders	333	494	812	916	1,463	1,803	871	1,050	956	**730**
Statement of financial position ($ million)										
Total assets	32,462	43,771	67,980	106,211	136,389	167,250	149,144	145,940	157,568	**153,626**
Total liabilities	29,877	40,938	63,555	100,874	128,870	157,189	139,584	134,171	145,636	**141,894**
Net assets	2,585	2,833	4,425	5,337	7,519	10,061	9,560	11,769	11,932	**11,732**
Total loan assets	9,839	10,777	28,425	34,999	45,796	52,407	44,751	44,267	46,016	**45,218**
Impaired loan assets (net of provisions)	16	61	42	85	88	165	952	647	377	**405**
Share information[1]										
Cash dividends per share (cents per share)										
Interim	41	52	61	90	125	145	145	86	86	**65**
Final	52	70	100	125	190	200	40	100	100	**75**
Special[2]	50	–	40	–	–	–	–	–	–	**–**
Total	143	122	201	215	315	345	185	186	186	**140**
Basic earnings per share (cents per share)	164.8	233.0	369.6	400.3	591.6	670.6	309.6	320.2	282.5	**210.1**
Share price at 31 March ($)[1]	24.70	35.80	48.03	64.68	82.75	52.82	27.05	47.25	36.60	**29.08**
Ordinary share capital (million shares)[3]	204.5	215.9	223.7	232.4	253.9	274.6	283.4	344.2	346.8	**348.6**
Market capitalisation at 31 March[1] (fully paid ordinary shares) ($ million)	5,051	7,729	10,744	15,032	21,010	14,504	7,666	16,266	12,693	**10,137**
Net tangible assets per ordinary share ($)[4]	8.80	9.66	14.02	16.99	24.35	30.35	27.89	28.40	28.91	**28.12**
Ratios (%)										
Return on average ordinary shareholders' funds	18.0	22.3	29.8	26.0	28.1	23.7	9.9	10.1	8.8	**6.8**
Dividend payout ratio	87.4[2]	53.2	53.2	54.4	54.3	52.2	60.2	60.4	67.3	**66.4**
Expense/income ratio	78.7	75.7	72.4	73.4	73.2	73.3	82.1	80.5	83.4	**84.9**
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.0	0.3	0.2	0.2	0.1	0.3	1.9	0.8	0.4	**0.5**
Assets under management ($ billion)[5]	52.3	62.6	96.7	140.3	197.2	232.0	243.1	325.7	309.8	**326.9**
Staff numbers	4,839	5,716	6,556	8,183	10,023	13,107	12,716	14,657	15,556	**14,202**

1 The MBL (now MGL) ordinary shares were quoted on the Australian Stock Exchange (now Australian Securities Exchange) on 29 July 1996.

2 The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of 50 cents per share, the payout ratio would have been 56.8 per cent.

3 Number of fully paid ordinary shares at 31 March, excluding options and partly paid shares.

4 Net tangible assets include intangible assets within disposal groups and assets held for sale. Net tangible assets per ordinary share has been restated to include net deferred tax assets, in accordance with industry practice.

5 The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with methodology.

Additional Investor Information

2012 Shareholder calendar

Date	Event
27 April	Full-year result announcement
11 May	Record date for final ordinary dividend
2 July	Payment date of final ordinary dividend
25 July	2012 Annual General Meeting
30 September	Financial half-year end
26 October[1]	Half-year result announcement
9 November[1]	Record date for interim ordinary dividend
12 December[1]	Payment date of interim ordinary dividend

1 These dates are subject to change.

2012 Annual General Meeting (AGM)

Macquarie Group's 2012 AGM will be held at 10:30 am on Wednesday, 25 July 2012 at the Four Seasons Hotel (Grand Ballroom), 199 George Street, Sydney NSW. Details of the business of the meeting will be forwarded to shareholders separately ahead of the meeting.

Stock Exchange listing

Macquarie Group Limited is listed on the ASX and its ordinary shares trade under the code MQG.

Macquarie Convertible Preference Securities are listed on the ASX and trade under the code MQCPA.

Macquarie Preferred Membership Interests are listed on the Singapore Stock Exchange and trade under the stock code 40RB.

Macquarie Exchangeable Capital Securities are listed on the Singapore Stock Exchange and trade under the stock code 2AQB.

Dividend details

Macquarie Group generally pays a dividend on its fully paid ordinary shares twice a year following the interim and final results announcements. The proposed dates for the 2012 dividends are as follows:

Dividend announcement	Record date	Proposed payment date
27 April 2012	11 May 2012	2 July 2012
26 Oct 2012[1]	9 Nov 2012[1]	12 Dec 2012[1]

1 These dates are subject to change.

Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie shares rather than receiving dividends in cash.

American Depository Receipt (ADR) program

Macquarie Group's ADR program effectively enables US investors to trade Macquarie Group shares in US dollars.

Macquarie ADRs are negotiable certificates issued by BNY Mellon, with one ADR representing one Macquarie share. They are traded under the symbol MQBKY and are classified as Level 1. They are not listed on any exchange and are only traded over-the-counter via brokers. One ADR represents one Macquarie Group Limited share. Distributions are paid to investors in US dollars.

The ADR register is kept at:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
USA

Toll-free telephone number for domestic callers: 1-888-BNY-ADRs
Telephone numbers for international callers: +1 201-680-6825
Further information can be found at www.bnymellon.com/shareowner.

Voting rights

At meetings of members or classes of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

(i) one vote for each fully paid share held, and

(ii) that proportion of a vote for any partly paid ordinary share calculated in accordance with clause 8.18 of the Macquarie Constitution.

A copy of the Constitution is available at macquarie.com.au/au/about_macquarie/corporate_governance.htm

Macquarie Convertible Preference Securities (Macquarie CPS)

Macquarie CPS may convert into a variable number of ordinary shares on 30 June 2013 or at other times, subject to various conditions. Holders of Macquarie CPS have no voting rights in respect of Macquarie Group Limited prior to conversion.

Macquarie Preferred Membership Interests (PMIs)

PMIs may be exchanged for preference shares in Macquarie Group Limited under certain circumstances. Prior to exchange, PMI holders have no voting rights in respect of Macquarie Group Limited (MGL). After an exchange the preference share holder has a right to vote at any general meeting of MGL only in one or more of the following circumstances:

(a) on any proposal:

  (i) to reduce the share capital of MGL

  (ii) that affects the rights attached to the Preference Shares

  (iii) to wind up MGL

  (iv) for the disposal of the whole of the property, business and undertaking of MGL

(b) on any resolution to approve the terms of a share buy back agreement

(c) during a period in which a dividend or part of a dividend is in arrears; or

(d) during the winding up of MGL

in which case the holders of preference shares have the same rights as to manner of attendance and to voting as holders of ordinary shares with one vote per preference share.

Macquarie Exchangeable Capital Securities (Macquarie ECS)

Macquarie ECS may convert into a variable number of ordinary shares on 20 June 2017 or at other times, subject to various conditions. Holders of Macquarie ECS have no voting rights in respect of Macquarie Group Limited prior to conversion.

Enquiries

Investors who wish to enquire about any administrative matter relating to their Macquarie Group Limited shareholding are invited to contact the Share Registry office at:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 8060 Australia

Telephone (within Australia): 1300 554 096
Telephone (international) +61 3 9415 4137
Facsimile: +61 3 9473 2500

Website: www.investorcentre.com/contact

All other enquiries relating to a Macquarie Group Limited share investment can be directed to:

Investor Relations

Macquarie Group Limited
Level 7, No.1 Martin Place
Sydney NSW 2000 Australia

Telephone: +61 2 8232 5006
Facsimile: +61 2 8232 4330

Email: macquarie.shareholders@macquarie.com
Website: macquarie.com.au/investorrelations

Macquarie Group's Company Secretary, Dennis Leong, may be contacted on the above numbers.

Website

To view the Annual Review, the Interim and Annual Reports, presentations, dividend information and other investor information, visit macquarie.com.au/investorrelations

Additional Investor Information
continued

Fully paid ordinary shares

Twenty largest ordinary shareholders at 17 April 2012:	Ordinary Shares	Percentage of Ordinary Shares
HSBC Custody Nominees (Australia) Limited	66,394,008	19.05
JP Morgan Nominees Australia Limited	55,328,478	15.87
National Nominees Limited	43,497,315	12.48
Bond Street Custodians Limited – MEREP Trustee – RSU Control	20,407,765	5.85
Citicorp Nominees Pty Limited	14,028,879	4.02
Citicorp Nominees Pty Limited – Colonial First State Inv A/C	10,270,135	2.95
Cogent Nominees Pty Limited	8,219,209	2.36
Argo Investments Limited	3,221,636	0.92
JP Morgan Nominees Australia Limited – Cash Income A/C	3,057,410	0.88
AMP Life Limited	2,554,243	0.73
Queensland Investment Corporation	2,039,768	0.59
Bond Street Custodians Limited – MEREP Trustee – DSU UNALL	1,748,533	0.50
HSBC Custody Nominees (Australia) Limited – NT-Comnwlth Super Corp A/C	1,170,148	0.34
Cogent Nominees Pty Limited – SMP Accounts	820,963	0.24
Bond Street Custodians Limited – Trustee A/C-USA	682,406	0.20
Bond Street Custodians Limited – MEREP Trustee – RSU UNALL	614,667	0.18
Bond Street Custodians Limited – MEREP Trustee – DSU Canada	556,745	0.16
EG Holdings Pty Ltd	550,000	0.16
Fleet Nominees Pty Limited	537,475	0.15
Ramea Holdings Pty Ltd	501,702	0.14
Total	**236,201,485**	**67.76**

Substantial shareholders

At 17 April 2012 the following shareholders were registered by the Company as a substantial shareholder, having declared a relevant interest in accordance with the *Corporations Act 2001 (Cth)*, in the voting shares below:

Holder	Ordinary Shares	Date of notice
Macquarie Group Limited	32,752,595	20 June 2011

Details of the spread of ordinary shareholdings at 17 April 2012 are as follows:

Range	Shareholders	Shares
1–1,000	94,398	30,595,757
1,001–5,000	20,338	39,007,060
5,001–10,000	1,421	9,790,324
10,001–100,000	738	17,315,087
100,001 shares and over	90	251,880,076
Total	**116,985**	**348,588,304**

5,422 shareholders (representing 43,980 fully paid shares) held less than a marketable parcel.

Unlisted securities

— All 20,549,509 options on issue at 17 April 2012 are held by participants in the Group's Employee Option Plan.

— 562,896 exchangeable shares on issue at 17 April 2012 are held by former employees of Orion Financial Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for one for shares in Macquarie Group Limited. They expire in November 2017 and carry no Macquarie Group Limited voting rights.

— There are also retention arrangements in place with key former Orion employees, under which a total of 32,002 new Macquarie Group Limited ordinary shares may be allocated by November 2012.

— 1,128,322 exchangeable shares on issue at 17 April 2012 are held by former employees of Tristone Capital Global Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for one for shares in Macquarie Group Limited. They expire in August 2019 and carry no Macquarie Group Limited voting rights.

— There are also retention arrangements in place with key former Tristone employees, under which a further 53,648 Exchangeable Shares and 40,941 options over Exchangeable Shares are also on issue.

Convertible Preference Securities

Twenty largest Securityholders at 17 April 2012:	Convertible Preference Securities	Percentage of Convertible Preference Securities
Navigator Australia Ltd – MLC Investment Sett A/C	230,715	3.85
JP Morgan Nominees Australia Limited	225,986	3.77
Questor Financial Services Limited – TPS RF A/C	225,061	3.75
National Nominees Limited	126,459	2.11
Nulis Nominees (Australia) Limited – Navigator Mast Plan Sett A/C	91,317	1.52
Citicorp Nominees Pty Limited	60,133	1.00
JMB Pty Limited	50,000	0.83
Cogent Nominees Pty Limited	44,637	0.74
HSBC Custody Nominees (Australia) Limited	44,149	0.74
RBC Dexia Investor Services Australia Nominees Pty Limited – GSENIP A/C	43,745	0.73
M F Custodians Ltd	41,015	0.68
RBC Dexia Investor Services Australia Nominees Pty Limited – NMSMT A/C	35,381	0.59
BT Portfolio Services Limited – Halcagni Pty Ltd A/C	35,263	0.59
Namrog Investments Pty Ltd	30,000	0.50
ABN AMRO Clearing Sydney Nominees Pty Ltd – Next Custodian A/C	28,295	0.47
Questor Financial Services Limited – TPS PIP A/C	28,215	0.47
Mutual Trust Pty Ltd	27,021	0.45
Mr Lesley Szekely + Mrs Suzaner Szekely + Ms Rachel Szekely + Mr Daniel Szekely – The Szekely Super Fund A/C	25,000	0.42
Art Gallery of NSW Foundation	24,885	0.41
Hestian Pty Ltd	23,200	0.39
Total	**1,440,477**	**24.01**

Details of the spread of Convertible Preference Securities holdings at 17 April 2012 were as follows:

Range	Securityholders	Securities
1–1,000	8,477	2,655,137
1,001–5,000	634	1,386,338
5,001–10,000	38	291,625
10,001–100,000	31	858,679
100,001 securities and over	4	808,221
Total	**9,184**	**6,000,000**

One securityholder (representing one Convertible Preference Security) held less than a marketable parcel.

Macquarie Preferred Membership Interests

As at 17 April 2012, the 400,000 convertible notes issued by Macquarie Group Limited as part of the Macquarie Preferred Membership Interests were held by one holder, Macquarie PMI LLC. The register in respect of the convertible notes is kept at Macquarie Group Limited's principal administrative office at No.1 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

Macquarie Exchangeable Capital Securities

As at 17 April 2012, the US$250 million exchangeable capital securities, issued by Macquarie Bank Limited acting through its London branch, were held by one holder, BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch as common depository for Euroclear Bank S.A. / N.V. and Clearstream Banking *société anonyme*. The register in respect of the exchangeable capital securities is kept by Deutsche Bank Luxembourg S.A, as the Registrar for the exchangeable capital securities.

Sustainability Appendix
GRI Index

This table provides information indicating the way Macquarie has used the Global Reporting Initiative to guide disclosures within this 2012 Annual Financial Report and Macquarie's 2012 Annual Review (AR in table). At the time of publication these disclosures are self-declared to meet a 'C+' Application Level. A GRI check has been requested.

Strategy and analysis

Ref	Indicator	Reference Document/Page number
1.1	Statement from the most senior decision maker	Chairman and Managing Directors Report **AR** / page 7

Organisational profile

2.1	Name of the organisation	page 1
2.2	Primary brands, products or services	About Macquarie **AR** / pages 12-13
2.3	Operational structure of organisation	About Macquarie **AR** / page12
2.4	Location of organisation's headquarters	Investor information **AR** / page 44
2.5	Number of countries where the organisation operates	About Macquarie **AR** / page 12
2.6	Nature of the ownership and legal form	Corporate Governance Statement / page 2 Additional Investor Information / pages 212-215
2.7	Markets served by the organisation	About Macquarie **AR** / pages 12-13 Regional Activity **AR** / pages 10-11
2.8	Scale of the reporting organisation	Chairman and Managing Directors report **AR** / pages 4-7 About Macquarie **AR** / page 12-13
2.9	Significant changes during the reporting period	Chairman and Managing Directors Report **AR** / pages 4-7
2.10	Awards received in the reporting period	http://www.macquarie.com.au/mgl/au/about-macquarie-group/profile/awards

Report parameters

3.1	Reporting period	Directors Report / page 36 (1 April 2011 to 31 March 2012)
3.2	Date of the most recent previous report	March 2011
3.3	Reporting cycle	Directors Report / page 36 (Annual)
3.4	Contact point for questions	Additional Investor information / page 213
3.5	Process for defining report content	Sustainability / pages 12-19
3.6	Boundary of the report	Directors Report / page 36
3.7	Any specific limitations on the scope or boundary of the report	Sustainability / pages 14-15
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, other entities	Directors Report / page 36-39 Corporate Governance Statement / pages 2-9
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	Sustainability / page 15
3.11	Significant changes from previous reporting periods	Not applicable
3.12	GRI Content Index	Sustainability Appendix – GRI Index / pages 216-217
3.13	Policy and current practice with regard to seeking external assurance for the report.	Sustainability Appendix – independent limited assurance report / pages 220-221

Governance, commitments and engagement

4.1	Governance structure of the organisation	Corporate Governance Statement / pages 2-9
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Corporate Governance Statement / page 4
4.3	State the number of members of the highest governance body who are independent and/or non-executive members	Corporate Governance Statement / page 4
4.4	Mechanisms for shareholders and employees to provide recommendations or directions to the highest governance body	Corporate Governance Statement / pages 2-9 Sustainability / pages 13,18-19
4.14	List of stakeholder groups engaged by the organisation	Sustainability / pages 12,19 Macquarie Group Foundation Annual Review
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability / page 12,19 Macquarie Group Foundation Annual Review

Environmental

Ref	Indicator	Reference/Page number
EN3	Direct energy consumption by primary energy source	Sustainability / pages 14-15
EN4	Indirect energy consumption by primary source	Sustainability / pages 14-15
EN5	Energy saved due to conservation and efficiency improvements	Sustainability / pages 14-15
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Sustainability / pages 16-17
EN16	Total direct and indirect greenhouse gas emissions by weight	Sustainability / page 14-15
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Sustainability / pages 14-15
FS1	Policies with specific environmental and social components applied to business lines	Sustainability / pages 12-13, 16-17
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	Sustainability / page 13 Directors' Report / page 90

Labor practices and decent work

LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Sustainability / page 19
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability / page 18-19
LA12	Percentage of employees receiving regular performance and career development reviews	Sustainability / page 19
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Diversity / page 10-11 Sustainability / page 19

Society

SO2	Percentage and total number of business units analysed for risks related to corruption	Sustainability / page 13
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Sustainability / page 13
SO5	Public policy positions and participation in public policy development and lobbying	Sustainability / page 13
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	http://periodicdisclosures.aec.gov.au/DonorSearch.aspx

Economic

EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	2012 Financial Report / pages 95-209 Macquarie Group Foundation AR / pages 30-31 Macquarie Group Foundation Annual Review
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Sustainability / pages 16-18

Sustainability Appendix
Independent review

Independent review of selected Subject Matter contained in Macquarie Group Limited's 2012 Annual Report

1. Purpose

The purpose of this document is define the selected Subject Matter (the selected Subject Matter) contained within Macquarie Group Limited's (MGL) 2012 Annual Report that have been included in the scope of PwC's limited assurance engagement.

2. Scope and the selected Subject Matter

The selected Subject Matter that MGL requested be included within the scope of PwC's limited assurance engagement comprised the following selected corporate sustainability information for the 12 months ending 31 March 2012 (the reporting period):

a) total electricity consumed from MGL's corporate offices and data centres around the world

b) total electricity indirect emissions (Scope 2) from MGL's corporate offices and data centres around the world

c) scope 3 emissions associated with short, medium and long-haul flights procured by MGL

d) management's assertion that carbon offsets have been purchased and retired for the 2012 reporting period representing a quantity of greenhouse emissions offset greater than the sum of b) and c).

3. Basis of preparation

3.1 Organisational boundary

3.1.1 Corporate offices

Macquarie's corporate offices are defined as:

— offices leased by MGL operating entities globally which are also occupied by MGL staff and have a Net Usable Area (NUA) – the area that can be fitted out by the tenant greater than $100m^2$

— data centres around the world considered to be under the ongoing 'operational control' of MGL. In this instance 'operational control' is defined with reference to the *Australian National Greenhouse and Energy Reporting Act (2007)*

— new offices from business acquisitions from the month of acquisition.

The following exclusions have been applied in determining the reporting boundary:

— offices or buildings that are owned or managed by an MGL entity but are not tenanted by Macquarie staff

— serviced offices used by Macquarie staff where MGL has no oversight of the energy usage of the office. Energy costs for serviced offices are typically included as part of a service fee

— joint venture offices (where the joint venture is the only Macquarie related occupant of the office). Joint venture offices are defined as offices where Macquarie staff may be located as part of a joint venture business activity but where Macquarie has limited ability to influence the operation of these offices and does not have oversight of the data required to calculate GHG emissions.

3.1.2 Business air travel

Business air travel is defined as travel ticketed through Macquarie's Travel Management Companies for the primary purpose of business. Where business trips booked through Macquarie's Travel Management Companies include staff-funded spousal travel or personal leisure arrangements made as an aside to a business trip, this has been included in 'business air travel'.

3.2 Calculating and measuring greenhouse emissions and energy use

3.2.1 Energy use and GHG emissions

3.2.1.1 Direct emissions associated with natural gas and diesel (Scope 1 emissions)

Australian data for Scope 1 emissions associated with fuel combustion, natural gas and refrigerants within the organisational boundary was obtained from supplier invoices and found to comprise less than one per cent of total Australian emissions. On this basis, Scope 1 emissions for Macquarie's corporate offices internationally have been excluded in calculating total greenhouse gas emissions for the purposes of this report.

3.2.1.2 Total electricity consumed

Approximately 82 per cent of the electricity data for the reporting period was obtained directly from actual tenancy or building data. The remaining 18 per cent of energy consumption was estimated by either:

- where invoiced data existed for an office for part of the reporting period, determining daily electricity consumed for that part of the reporting period and extrapolating this out to the remainder of the reporting period for that office
- where no invoice data was available for a particular office, estimating electricity consumed for that office based on the Net Lettable Area of the office and the average electricity consumption per square metre of other offices in the same region.

Emission factors outlined in section 3.2.2 have then been applied to determine the equivalent indirect emissions associated with electricity consumed (Scope 2 emissions).

3.2.1.3 Other indirect emissions associated with business air travel (Scope 3 emissions)

Air travel data was based off reports provided by International SOS, the organisation contracted to monitor MGL staff travel and provide emergency assistance where required.

Emission factors outlined in section 3.2.2 have then been applied to mileage to determine the equivalent indirect emissions associated with business air travel (Scope 3 emissions).

3.2.2 Measurement of GHG emissions

The following emissions factors have applied in calculating GHG emissions (tonnes CO_2-e):

Component	Reference documents
Australian offices	Method 1 from the *National Greenhouse and Energy Reporting (Measurement) Determination 2008* for the calculation of greenhouse gas (GHG) emissions.
United Kingdom offices	The rolling average electricity emission factor as published in the Defra 2007: *Guidelines to Defra's GHG conversion factors for company reporting.*
United States offices	The Climate Registry Information System (CRIS) (2007)
Offices in other locations	GHG Protocol (2007) developed by the World Business Council for Sustainable Development and the World Resource Institute, tool 2.0
Air travel	Emissions factors as published in the *2010 Guidelines to Defra / DECC's GHG Conversion Factors for Company Reporting.* The mileage data is used to calculate emissions based on short, medium and long haul flight categories. Emissions from air travel also have a 2.7 radiative forcing index applied during the calculation.

Scope 2 emissions factors used for Australian and United States offices, and Scope 3 emissions factors for all air travel include greenhouse gases in addition to carbon dioxide and are expressed in carbon dioxide equivalents (CO_2-e) as stipulated within the associated reference documents. Scope 2 emission factors used for the United Kingdom and remaining office locations only comprise carbon dioxide emissions (CO_2) as stipulated within the reference documents. The jurisdictional variance in approaches to Scope 2 methodology had no material effect on outcome.

3.3 Carbon offsets purchased and retired

All carbon offsets purchased were registered under the international Gold Standard issued by the Gold Standard Foundation, Voluntary Carbon Standard issued by the VCS Association or US Climate Action Reserve protocol.

Sustainability Appendix
Independent limited assurance report

pwc

Independent Limited Assurance Report to the Directors of Macquarie Group Limited over selected Subject Matter included in MGL's Annual Report for the 12 months ending 31 March 2012

We have been engaged to provide limited assurance on selected subject matter (the **selected Subject Matter**) presented in Macquarie Group Limited's (**MGL**) Annual Report (the **Annual Report**) for the 12 months ending 31 March 2012 (the **period**), in accordance with MGL's reporting criteria (the **Reporting Criteria**) set out on page 218-219 in the Annual Report.

The selected subject matter

The selected Subject Matter was chosen by MGL and comprises:

a) total electricity consumed from MGL's corporate offices and data centres around the world (TJ)

b) total electricity indirect emissions (Scope 2) from MGL's corporate offices and data centres around the world (tCO_2-e)

c) total scope 3 emissions associated with short, medium and long-haul flights procured by MGL (tCO_2-e)

d) management's assertion that carbon offsets have been purchased and retired for the reporting period representing a quantity of greenhouse emissions offset greater than the sum of b) and c) above.

Our responsibility

Our responsibility is to express a conclusion on the selected Subject Matter based on our procedures.

The procedures selected depend on auditor judgment, including an assessment of the risks of material misstatement of the selected Subject Matter, whether due to fraud or error. In making these risk assessments, we consider internal control relevant to MGL's preparation and fair presentation of the selected Subject Matter in the Annual Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of MGL's internal controls.

We read other information included within the Sustainability section in the Annual Report and consider whether it is consistent with the knowledge obtained through our procedures. We consider the implications for our report if we become aware of any apparent material inconsistencies with the selected Subject Matter. Our responsibilities do not extend to any other information reported by MGL.

In conducting our assurance engagement, we have followed applicable independence requirements of Australian professional ethical pronouncements.

Limited by a scheme approved under Professional Standards Legislation

Management's responsibilities

Management of MGL are responsible for preparing and presenting the selected Subject Matter in accordance with the Reporting Criteria. Management are responsible for determining the adequacy of the Reporting Criteria to meet the reporting needs of MGL. Management's responsibility also includes the design, implementation and maintenance of a system of internal control relevant to the preparation and fair presentation of the selected Subject Matter that is free from material misstatement, whether due to fraud or error.

Inherent limitations

Non-financial performance information, including the selected Subject Matter, may be subject to more inherent limitations than financial information, given both its nature and the methods used for the determining, calculating and estimating such information. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments. It is important to read the selected Subject Matter in the context of MGL's Reporting Criteria.

Assurance work performed

We conducted our limited assurance engagement in accordance with the Australian Standard on Assurance Engagements ASAE 3000 Assurance Engagements other than Audits and Reviews of Historical Financial Information issued by the Australian Auditing and Assurance Standards Board. Our procedures primarily consisted of:

— analytical procedures

— substantive testing of selected data to source information

— re-performance of calculations

— detailed walk-through of key processes and controls

— detailed testing over the consolidation and reporting process applied by MGL.

As a limited assurance engagement generally comprises of making enquiries, primarily of management, and applying analytical procedures and the work is substantially less detailed than that undertaken for a reasonable assurance engagement, the level of assurance is lower than would be obtained in a reasonable assurance engagement. The conclusion expressed in this report has been formed on the above basis.

Use of our report

This report has been prepared in accordance with our engagement terms, solely for the Directors of MGL as a body, for the sole purpose of reporting on the selected Subject Matter within the Annual Report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of MGL for our work or for this report, or for any other purpose other than that for which this report was prepared.

We consent to the inclusion of this report in the Annual Report to assist MGL members in assessing whether the Directors have discharged their responsibilities by commissioning an independent assurance report in connection with the selected subject matter.

Conclusion

Based on the work described above, nothing has come to our attention which causes us to believe that the selected Subject Matter included in the Annual Report for the 12 months ending 31 March 2012 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

PricewaterhouseCoopers.

PricewaterhouseCoopers Australia
by

John Tomac

John Tomac
Partner
Sustainability & Climate Change

Sydney
27 April 2012

Glossary

AASB	Australian Accounting Standards Board
the Act	*Corporations Act 2001 (Cth)*
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
AMA	Advanced Measurement Approach
Annual Financial Report	One component of Macquarie Group Limited's 2012 Annual Report which contains the Corporate Governance Statement, Diversity Report, Sustainability Report, Risk Report and Financial Report
Annual Review	One component of Macquarie Group Limited's 2012 Annual Report which contains key financial details, the Chairman and Managing Directors' Report and information about Macquarie's operating Groups and Divisions
ANZ	Australia and New Zealand
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
BAC	Board Audit Committee
Banking Group	the Banking Group comprises Banking and Financial Services Group (BFS), Corporate and Asset Finance Group (CAF), Fixed Income, Currencies and Commodities (FICC), Macquarie Funds Group (MFG) and the trading activities of the Macquarie Securities Group (MSG). There is also one division within the Banking Group; Real Estate Banking Division (REB)
BBSW	Australian Financial Markets Association's bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR etc
BGCC	Board Governance and Compliance Committee
the Board	the Board of Voting Directors of Macquarie Group Limited
BRC	Board Remuneration Committee
BREEAM Excellent	UK Building Research Establishment Environmental Assessment Method's highest standard of environmental performance in an office building.
CAGR	compound annual growth rate
CAMAC	Corporations and Markets Advisory Committee
CDP	Carbon Disclosure Project
CET1	Common Equity Tier 1
CEO	Chief Executive Officer
CFO	Chief Financial Officer
the Company	Macquarie Group Limited
the Consolidated Entity	Macquarie Group Limited and its subsidiaries
CRO	Chief Risk Officer
CVA	credit valuation adjustments
Directors	the Voting Directors of Macquarie Group Limited (unless the context indicates otherwise)
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act

DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
EMEA	Europe, Middle East and Africa
Environmental Management Plan (EMP)	Macquarie's internal framework of actions and targets to manage and reduce the environmental impact of its direct operations. The Plan covers Macquarie's corporate offices and associated corporate activities such as travel and procurement
EPS	earnings per share
ERL	Equity Risk Limit
ESP	Macquarie Group Employee Share Plan
ESG	Environmental, Social and Governance
Executive Key Management Personnel – (Executive KMP)	Members of the Executive Committee of Macquarie Group Limited
FIRB	Foundation Internal Ratings Based Approach
FX, Forex	Foreign Exchange
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
IRESS	a share market information system
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of Macquarie Group Limited
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board, the Board	the Board of Voting Directors of Macquarie Group Limited
Macquarie CPS	Macquarie Convertible Preference Securities
Macquarie ECS, ECS	Macquarie Exchangeable Capital Securities
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie PMI	Macquarie Preferred Membership Interests
Malus	the discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement
MBEDSAP	Macquarie Bank Executive Director Share Acquisition Plan
MBL	Macquarie Bank Limited

Glossary
continued

MBSSAP	Macquarie Bank Staff Share Acquisition Plan
MEL	Macro-Economic-Linkages
MEREP	Macquarie Group Employee Retained Equity Plan
MGEDSAP	Macquarie Group Executive Director Share Acquisition Plan
MGESOP	Macquarie Group Employee Share Option Plan
MGL	Macquarie Group Limited ABN 94 122 169 279
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NEDSAP	Non-Executive Director Share Acquisition Plan
NOHC	non-operating holding company
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MFG and FICC that use certain offshore regulated entities of the Non-Banking Group
NPAT	net profit after tax
OECD	Organisation for Economic Co-operation and Development
ORMF	Operational Risk Management Framework
OTC	over-the-counter
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
RMG	Risk Management Group
ROE	return on equity
RSU	Restricted Share Unit issued under the MEREP
RWA	risk-weighted assets
S&P	Standard & Poor’s
SPE	Special Purpose Entity
tCO_2-e (Carbon dioxide equivalent in tonnes)	metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (US Environment Protection Agency)
TJ	terajoules
TSR	total shareholder return
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Group Limited
WHS	Work Health and Safety

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Designed by Frost*

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