MACQUARIE FINANCIAL HOLDINGS LIMITED AND ITS SUBSIDIARIES

ACN 124 071 398

DIRECTORS' REPORT AND FINANCIAL REPORT
YEAR ENDED 31 MARCH 2014

The Company's registered office is:
C/- Company Secretarial
Mezzanine Level
No.1 Martin Place
Sydney, NSW 2000.

Directors' Report
for the financial year ended 31 March 2014

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Financial Holdings Limited (the Company or MFHL), the Directors submit herewith the financial statements of the Company and its subsidiaries (the Consolidated Entity) and report as follows:

Directors

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

– M. Ferrier
– R.N. Upfold
– A.J. Lewis[1]
– K.J. Hannan[2]

Other than Mr C.T. Lynam[3], Mr A.J. Lewis and Mrs K.J. Hannan the directors listed above each held office as a Director of MFHL throughout the financial year ended 31st March 2014

Principal activities

The principal activity of the Company is to act as the holding company of the Non-Banking Group within the Macquarie Group. The Non-Banking Group comprises most of the activities of the Macquarie Capital Group and certain Macquarie Securities Group, Macquarie Funds Group, Fixed Income, Currencies and Commodities Group and Corporate activities.

Result

The consolidated profit after income tax attributable to ordinary equity holders, under Australian Accounting Standards, for the financial year ended 31 March 2014 was $509 million (2013: $231 million).

Dividends and distributions

The Company paid a final dividend of $400 million in respect of financial year ended 31 March 2013.

In addition, the Company paid a special dividend of $318 million during the year.

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

State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report.

Review of operations

The profit attributable to ordinary equity holders of the Consolidated Entity for the year ended 31 March 2014 was $509 million, an increase of 120 per cent from $231 million in the previous year.

Net operating income for the year ended 31 March 2014 was $2,545 million, an increase of 25 per cent on prior year.

Total operating expenses for the year ended 31 March 2014 were $1,811 million, an increase of 13 per cent on the prior year.

(1) A.J. Lewis joined the board on 31 May 2013
(2) K.J. Hannan joined the board on 31 May 2013
(3) C.T. Lynam left the board on 31 May 2013

Likely developments, business strategies and prospects

Disclosure of information relating to the future developments in the operations, business strategies and prospects for future financial years of the Consolidated Entity have not been included in the report because the Directors believe it may result in unreasonable prejudice to the Consolidated Entity.

Directors' indemnification

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

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

Each of the Directors and Secretaries having the benefit of the indemnity provisions under the Company's Constitution, agreed by deed poll that those indemnities would not apply to the extent to which an indemnity for any liability or legal costs is forbidden by Australian statute or would, if given, be made void by Australian statute. These limitations on the indemnities have subsequently been adopted into the indemnity provisions of the Company's Constitution with the effect that these limitations now apply directly to the Directors and Secretaries.

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Act, is set out on page 3 of this report.

Rounding

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

Company disclosures

All amounts relate to the Consolidated Entity unless otherwise stated.

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

Robert Upfold
Director
Sydney
4 June 2014

pwc

Auditor's Independence Declaration

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

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* 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 Financial Holdings Limited and the entities it controlled during the financial year.

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
4 June 2014

Macquarie Financial Holdings Limited
2014 Financial Report
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The Financial Report was authorised for issue by the Directors on 4 June 2014.
The Consolidated Entity has the power to amend and reissue the Financial Report.

Consolidated income statements
for the financial year ended 31 March 2014

	Notes	2014 $m	2013 $m
Interest and similar income		**501**	377
Interest expense and similar charges		**(566)**	(487)
Net interest expense	2	**(65)**	(110)
Fee and commission income	2	**2,059**	1,832
Net trading income	2	**5**	27
Share of net profits of associates and joint ventures accounted for using the equity method	2	**136**	54
Other operating income and charges	2	**410**	227
Net operating income		**2,545**	2,030
Employment expenses	2	**(1,289)**	(1,119)
Brokerage, commission and trading-related expenses	2	**(78)**	(78)
Occupancy expenses	2	**(145)**	(165)
Non-salary technology expenses	2	**(84)**	(89)
Other operating expenses	2	**(215)**	(151)
Total operating expenses		**(1,811)**	(1,602)
Operating profit before income tax		**734**	428
Income tax expense	3	**(232)**	(199)
Profit after income tax		**502**	229
Loss attributable to non-controlling interests		**7**	2
Profit attributable to ordinary equity holders of Macquarie Financial Holdings Limited		**509**	231

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

Consolidated statements of comprehensive income
for the financial year ended 31 March 2014

	Notes	2014 $m	2013 $m
Profit after income tax		**502**	229
Other comprehensive income/(expense)[1]			
Available for sale investments, net of tax	25	**84**	190
Cash flow hedges, net of tax	25	**–**	3
Share of other comprehensive income of associates and joint ventures, net of tax	25	**13**	21
Exchange differences on translation of foreign operations, net of hedge and tax		**135**	(93)
Total other comprehensive income		**232**	121
Total comprehensive income		**734**	350
Total comprehensive income/(expense) attributable to:			
Ordinary equity holders of Macquarie Financial Holdings Limited		**726**	353
Non-controlling interests		**8**	(3)
Total comprehensive income		**734**	350

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

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

Consolidated statements of financial position
for the financial year ended 31 March 2014

	Notes	2014 $m	2013 $m
Assets			
Receivables from financial institutions	5	**3,243**	2,171
Trading portfolio assets	6	**743**	824
Derivative assets		**167**	110
Investment securities available for sale	7	**1,866**	2,913
Other assets	8	**4,346**	4,289
Loan assets held at amortised cost	9	**1,540**	1,574
Other financial assets at fair value through profit or loss	11	**552**	254
Due from related body corporate entities	27	**8,165**	4,573
Property, plant and equipment	12	**150**	153
Interests in associates and joint ventures accounted for using the equity method	13	**1,912**	1,526
Intangible assets	14	**410**	405
Deferred tax assets	15	**397**	554
Total assets		**23,491**	19,346
Liabilities			
Trading portfolio liabilities	16	**302**	113
Derivative liabilities		**225**	128
Deposits	17	**66**	97
Other liabilities	18	**4,739**	4,928
Payables to financial institutions	19	**1,774**	524
Other financial liabilities at fair value through profit or loss	20	**553**	806
Due to related body corporate entities	27	**11,210**	6,664
Debt issued at amortised cost	21	**1,933**	1,779
Provisions	22	**53**	52
Deferred tax liabilities	15	**57**	108
Total liabilities excluding loan capital		**20,912**	15,199
Loan capital			
Macquarie Convertible Preference Securities		**–**	616
Subordinated debt at amortised cost		**442**	402
Total loan capital	23	**442**	1,018
Total liabilities		**21,354**	16,217
Net assets		**2,137**	3,129
Equity			
Contributed equity	24	**363**	1,317
Reserves	25	**104**	(113)
Retained earnings	25	**1,642**	1,856
Total capital and reserves attributable to ordinary equity holders of Macquarie Financial Holdings Limited		**2,109**	3,060
Non-controlling interests	25	**28**	69
Total equity		**2,137**	3,129

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

Consolidated statements of changes in equity
for the financial year ended 31 March 2014

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total Equity $m
Balance at 1 April 2012		1,709	(235)	1,625	3,099	70	3,169
Profit after income tax		–	–	231	231	(2)	229
Other comprehensive income/(expense), net of tax		–	122	–	122	(1)	121
Total comprehensive income/(expense)		–	122	231	353	(3)	350
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	24	20	–	–	20	–	20
Reduction of capital	24	(400)	–	–	(400)	–	(400)
Non-controlling interests:							
Loss attributable to non-controlling interests		–	–	–	–	2	2
Other equity movements:							
Return of capital to ultimate parent entity in relation to share-based payments	24	(12)	–	–	(12)	–	(12)
		(392)	–	–	(392)	2	(390)
Balance at 31 March 2013		**1,317**	**(113)**	**1,856**	**3,060**	**69**	**3,129**
Profit after income tax		**–**	**–**	**509**	**509**	**(7)**	**502**
Other comprehensive income, net of tax		**–**	**217**	**–**	**217**	**15**	**232**
Total comprehensive income		**–**	**217**	**509**	**726**	**8**	**734**
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	24	**9**	**–**	**–**	**9**	**–**	**9**
Dividends paid and provided for	4	**–**	**–**	**(718)**	**(718)**	**–**	**(718)**
Capital reduction on distribution	24	**(996)**	**–**	**–**	**(996)**	**–**	**(996)**
Non-controlling interests:							
Distributions of equity, net of transaction cost		**–**	**–**	**–**	**–**	**(56)**	**(56)**
Loss attributable to non-controlling interests		**–**	**–**	**–**	**–**	**7**	**7**
Change in non-controlling ownership interests		**–**	**–**	**(5)**	**(5)**	**–**	**(5)**
Other equity movements:							
Additional paid in capital from ultimate parent entity in relation to share based payments	24	**33**	**–**	**–**	**33**	**–**	**33**
		(954)	**–**	**(723)**	**(1,677)**	**(49)**	**(1,726)**
Balance at 31 March 2014		**363**	**104**	**1,642**	**2,109**	**28**	**2,137**

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

Consolidated statements of cash flows
for the financial year ended 31 March 2014

	Notes	2014 $m	2013 $m
Cash flows from operating activities			
Interest received		**478**	373
Interest and other costs of finance paid		**(567)**	(486)
Dividends and distributions received		**231**	182
Fees and other non-interest income received		**1,978**	1,872
Fees and commissions paid		**(109)**	(93)
Net (payments)/proceeds for trading portfolio assets and other financial assets/liabilities		**(1,035)**	804
Payments to suppliers		**(257)**	(371)
Employment expenses paid		**(1,182)**	(1,166)
Income tax paid		**(138)**	(80)
Net loan assets repaid/(granted)		**3,481**	(1,496)
Net increase in amounts due to other financial institutions, deposits and other borrowings		**540**	1,510
Net cash flows from operating activities	26	**3,420**	1,049
Cash flows from/(used in) investing activities			
Net receipts from/(payments for) investment securities available for sale		**306**	(231)
Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated		**576**	590
Payments for the acquisition of associates and subsidiaries, net of cash acquired		**(641)**	(357)
Payments for the acquisition of property, plant and equipment, lease assets and intangible assets		**(126)**	(13)
Net cash flows from/(used in) investing activities		**115**	(11)
Cash flows from/(used in) financing activities			
Contributions from non-controlling interests		**3**	1
Return of capital to parent		**–**	(400)
Repayment of loan capital		**(616)**	–
Dividend and distributions paid		**(400)**	–
Net cash flows used in financing activities		**(1,013)**	(399)
Net increase/(decrease) in cash and cash equivalents		**2,522**	639
Cash and cash equivalents at the beginning of the financial year		**4,462**	3,823
Cash and cash equivalents at the end of the financial year	26	**6,984**	4,462

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

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 35);
- impairment of loan assets held at amortised cost, investment securities available for sale and interests in associates and joint ventures (notes 1(xi), 1(xiii), 7 and 34.1);
- acquisitions and disposals of subsidiaries, associates and joint ventures (notes 1(ii),13 and 39);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of structured entities (notes 1(ii) and 32);
- determination of whether dividends and distributions received are recognised as income or a return of capital (note 1(v));
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (notes 1(vi), 3 and 15); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xv) and 14).

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

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

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

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

Initial application of AASB10, AASB 11, AASB 127 (Dec 2012) and AASB 128 (Dec 2012) has not resulted in any material impact in the current or prior financial year.

AASB 12 sets out disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. The application of AASB 12 in the current financial year has not affected any of the amounts recognised in the financial statements, however has resulted in additional disclosures of structured entities as provided in note 32. AASB 2012-10 provides relief from disclosing comparatives for interests in unconsolidated structured entities when AASB 12 is applied for the first time.

AASB 13 *Fair value measurement*

AASB 13 became effective in the current financial year. AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. In accordance with the transitional provisions, AASB 13 has been applied prospectively from 1 April 2013. The application of AASB 13 in the current financial year has not had a material impact on the financial position nor performance of the Consolidated Entity, however has resulted in additional fair value disclosures as provided in note 35.

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

AASB 2012-2 requires additional disclosures of enforceable master netting arrangements and their effect, even if assets and liabilities are not offset on the statement of financial position. In accordance with the transitional provisions, AASB 2012-2 has been applied retrospectively. The application of AASB 2012 in the current financial year has not had a material impact on the financial position nor performance of the Consolidated Entity, however has resulted in additional disclosures of certain netting arrangements as provided in note 36.

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

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued
(i) Basis of preparation continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) over which the Company has the power to direct the relevant activities, exposure to significant variable returns and the ability to utilise power to affect the Consolidated Entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed. The Consolidated Entity has power over an entity when it has existing substantive rights that give it the current ability to direct the entity's relevant activities. Relevant activities are those activities that significantly affect the entity's returns. The Consolidated Entity evaluates whether it has the power to direct the relevant activities. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates whether it has exposure or rights to variable returns that, in aggregate, are significant. All variable returns are considered including, but not limited to, debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

Structured entities

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

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

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the 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 direct relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

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

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

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method except those which are classified as held for sale (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 the share of its post-acquisition movements in reserves.

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

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

(iii) Business combinations

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued
(iii) Business combinations continued

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

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

Combinations between entities or businesses under common control

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

(iv) 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(x)).

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

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.

(v) Revenue and expense recognition

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

Net interest income

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

Fee and commission income

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

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

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

Net trading income

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

Dividends and distributions

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

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

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

(vi) Income tax

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

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

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

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

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

Tax consolidation

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued
(vi) Income tax continued

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

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

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

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

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

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

(viii) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see note 35). 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.

(ix) Derivative instruments

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

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

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

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

(x) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

For a derivative or borrowing designated as hedging a net investment in a foreign operation, the gain or loss on revaluing the derivative or borrowing associated with the effective portion of the hedge is recognised in the foreign currency translation reserve and subsequently released to the income statement when the foreign operation is disposed of. The ineffective portion is recognised in the income statement immediately. The fair values of various financial instruments used for hedging purposes are disclosed in note 33. Movements in the cash flow hedging reserve in equity are shown in note 24.

(xi) Investments and other financial assets

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

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

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

Investment securities available for sale

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

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued

(xii) Non-current assets and disposal groups classified as held for sale

This category includes interests in associates and joint ventures for which their carrying amount will be recovered principally through a sale transaction rather than continuing use, and subsidiaries held exclusively with a view to sale. These assets are classified as held for sale when it is highly probable that the asset will be sold within 12 months subsequent to being classified as such. Where there is a planned partial disposal of a subsidiary resulting in loss of control, all of the assets and liabilities of the subsidiary are classified as held for sale.

Non-current assets and assets of disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. These assets are not depreciated.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell, limited by the cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale is recognised at the date of sale.

(xiii) Impairment

Loan assets held at amortised cost

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

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

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

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

Investment securities available for sale

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

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost. In making this judgement, the Consolidated Entity evaluates among other factors, the normal volatility in share price and the period of time for which fair value has been below cost. In the case of debt securities classified as available for sale, observable data that relates to loss events are considered, including adverse changes in the payment status of the issuer and national or local economic conditions that correlate with defaults on those assets.

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

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

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

Interests in associates and joint ventures

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

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

(xiv) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are reviewed for impairment at each reporting date. Historical cost includes expenditure directly attributable to the acquisition of the asset. Property, plant and equipment includes assets leased out under operating leases.
Depreciation on assets is calculated on a straight-line basis to allocate the difference between cost and residual values over their estimated useful lives, at the following rates:

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

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

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

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

(xv) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

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

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

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

Software

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

Impairment

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

(xvi) 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.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued

(xvii) 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 the 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.

(xviii) Performance based remuneration

Share-based payments

The ultimate parent entity Macquarie Group Limited (MGL), operates share-based compensation plans, which include options granted to employees and shares (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in note 29. The Consolidated Entity recognises an expense (and equity reserve) for its shares and options granted to employees by MGL. The shares and options are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense over the respective vesting periods.

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

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

In December 2009, MGL established the MEREP. Restricted Share Units (RSUs)/Deferred Share Units (DSUs) and PSUs relating to the MEREP plan for MGL and Macquarie Bank Limited (MBL) Executive Committee members, have been granted in the current year in respect of 2013. The fair value of each of these grants is estimated using MGL's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

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

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

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

The Consolidated Entity 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 in MGL.

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.

(xix) Cash and cash equivalents

Cash and cash equivalents comprise:

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

(xx) Leases

Where finance leases are granted to third parties, the present value of the lease receipts is recognised as a receivable and included in loan assets held at amortised cost. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.
Leases entered into by the Consolidated Entity as lessee are primarily operating leases. The total fixed payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

(xxi) Offsetting financial instruments

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

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

(xxiii) 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.

(xxiv) Changes in ownership interests

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

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

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

(xxv) Comparatives

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

(xxvi) Rounding of amounts

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 2
Profit for the financial year

	2014 $m	2013 $m
Net interest income		
Interest and similar income received/receivable	**501**	377
Interest expense and similar charges paid/payable	**(566)**	(487)
Net interest expense	**(65)**	(110)
Fee and commission income		
Base fees	**493**	380
Performance fees	**163**	139
Mergers and acquisitions, advisory and underwriting fees	**773**	618
Brokerage and commissions	**439**	447
Other fee and commission income	**191**	248
Total fee and commission income	**2,059**	1,832
Net trading income(1)		
Equities	**14**	(69)
Commodities	**2**	11
Credit, interest rate and foreign exchange products	**(11)**	85
Net trading income	**5**	27
Share of net profits of associates and joint ventures accounted for using the equity method	**136**	54

(1) Included in net trading income are fair value gains of $6 million (2013: $28 million losses) 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 interest rate risk where hedge accounting requirements are not met – refer to note 1(x) – Summary of significant accounting policies.

Note 2

Profit for the financial year continued

	2014 $m	2013 $m
Other operating income and charges		
Net gains on sale of investment securities available for sale	**322**	17
Impairment charge on investment securities available for sale	**(1)**	(62)
Net gains on sale of associates and joint ventures (note 27)	**52**	157
Impairment charge on investments in associates and joint ventures[1]	**(129)**	(130)
Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and business held for sale	**11**	5
Gain on change of ownership interests[2]	**–**	(120)
Impairment charge on non-financial assets	**–**	(17)
Dividends/distributions received/receivable on investment securities available for sale	**171**	122
Collective allowance for credit losses provided for during the financial year (note 9)	**(5)**	(9)
Individually assessed provisions:		
Loan assets provided for during the financial year (note 9)	**(12)**	(22)
Other receivables provided for during the financial year	**(16)**	(6)
Recovery of other receivables previously provided for (note 9)	**7**	–
Loan losses written off	**(1)**	(2)
Other income	**11**	54
Total other operating income and charges	**410**	227
Net operating income	**2,545**	2,030

(1) Includes impairment reversals of $3 million (2013: $46 million). During the year the Consolidated Entity recognised an impairment loss of $129 million on its investments in associates. The investments were impaired to their value in use as determined by discounting the expected future cash flows from holding the investments. The expected future cash flows were discounted at market rates.

(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 associates.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 2

Profit for the financial year continued

	2014 $m	2013 $m
Employment expenses		
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,156)**	(1,000)
Share based payments	**(132)**	(124)
(Provision)/ reversal of annual leave	**(2)**	4
Reversal of long service leave	**1**	1
Total employment expenses	**(1,289)**	(1,119)
Brokerage, commission and trading-related expenses		
Brokerage and other trading related expenses	**(67)**	(70)
Other fee and commission expenses	**(11)**	(8)
Total brokerage, commission and trading-related expenses	**(78)**	(78)
Occupancy expenses		
Operating lease rentals	**(87)**	(107)
Depreciation: buildings, furniture, fittings and leasehold improvements (note 12)	**(36)**	(44)
Other occupancy expenses	**(23)**	(14)
Total occupancy expenses	**(146)**	(165)
Non-salary technology expenses		
Information services	**(55)**	(58)
Depreciation: equipment (note 12)	**(9)**	(14)
Other non-salary technology expenses	**(20)**	(17)
Total non-salary technology expenses	**(84)**	(89)
Other operating expenses		
Professional fees	**(53)**	(56)
Auditor's remuneration (note 38)	**(8)**	(9)
Travel and entertainment expenses	**(67)**	(60)
Communication expenses	**(10)**	(11)
Amortisation of intangibles (note 14)	**(8)**	(8)
Other expenses[(1)]	**(68)**	(7)
Total other operating expenses	**(214)**	(151)
Total operating expenses	**(1,811)**	(1,602)

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

Note 3

Income tax expense

	2014 $m	2013 $m
(i) Income tax expense		
Current tax expense	**(131)**	(62)
Deferred tax expense	**(101)**	(137)
Total	**(232)**	(199)
(ii) Numerical reconciliation of income tax expense to prima facie tax payable		
Prima facie income tax expense on operating profit(1)	**(220)**	(128)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:		
Rate differential on offshore income	**(12)**	(63)
Other items	**–**	(8)
Total income tax expense	**(232)**	(199)
(iii) Tax expense relating to items of other comprehensive income		
Available for sale investments	**(36)**	(79)
Cash flow hedges	**–**	(1)
Foreign currency translation reserve	**(1)**	(65)
Share of other comprehensive expense of associates and joint ventures	**(6)**	(8)
Total tax expense relating to items of other comprehensive income	**(43)**	(153)
(iv) Deferred tax expense represents movement in deferred tax assets/ liabilities		
Investments in subsidiaries, associates, securities available for sale and joint ventures	**(38)**	43
Fixed assets	**(12)**	(10)
Financial instruments	**19**	(5)
Intangible assets	**1**	(25)
Other assets and liabilities	**(72)**	(72)
Tax losses	**1**	(68)
Net deferred tax expense	**(101)**	(137)

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

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

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

The company has considered its position with respect to the unresolved matters and other tax claims, including seeking advice, and considers that it holds appropriate provisions.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

	2014 $m	2013 $m

Note 4
Dividends and distributions paid or provided for

	2014 $m	2013 $m
(i) Dividends paid or provided for		
2013 final dividend paid	**400**	–
2014 special dividend paid	**318**	–
Total dividends paid (note 25)	**718**	–

Note 5
Receivables from financial institutions

	2014 $m	2013 $m
Cash and other receivables[(1)]	**1,710**	1,610
Cash collateral on securities borrowed and reverse repurchase agreements[(2)]	**1,533**	561
Total receivables from financial institutions[(3)]	**3,243**	2,171

(1) Included within this balance is $4 million (2013: $34 million) provided as security over payables to other financial institutions.
(2) The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral held as at 31 March 2014 is $1,451 million (2013: $577 million), which is generally sold or re-pledged.
(3) Margin monies placed of $419 million have been reclassed to Note 9 - Loan assets held at amortised cost for the Consolidated Entity for the period ended 31 March 2013

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

Note 6
Trading portfolio assets

	2014 $m	2013 $m
Corporate securities	**663**	417
Listed equity securities	**40**	355
Bank bills	**40**	39
Foreign government securities	**–**	13
Total trading portfolio assets[(1),(2)]	**743**	824

(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 $79 million (2013: $98 million).
(2) Included within these balances are trading assets of $315 million (2013: $209 million) pledged as collateral to secure liabilities under repurchase and stock lending agreements.

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

	2014 $m	2013 $m

Note 7
Investment securities available for sale

	2014 $m	2013 $m
Equity securities		
Listed	**648**	2,042
Unlisted	**955**	684
Debt securities	**263**	187
Total investment securities available for sale	**1,866**	2,913

Of the above amounts $164 million (2013: $92 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 8
Other assets

	2014 $m	2013 $m
Security settlements[1]	**3,662**	3,311
Debtors and prepayments	**639**	916
Income tax receivable	**41**	58
Other	**4**	4
Total other assets[2]	**4,346**	4,289

(1) Security settlements are generally receivable within three working days of the relevant trade date.
(2) Included within this balance is $3 million (2013: $236 million) of assets which are provided as security over payables to other financial institutions.

Of the above amounts, $4,342 million (2013: 4,285 million) is 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 2014
continued

Note 9
Loan assets held at amortised cost

	Consolidated 2014			Consolidated 2013		
	Gross $m	Individually assessed provision for impairment $m	Net $m	Gross $m	Individually assessed provision for impairment $m	Net $m
Corporate and commercial term lending	**916**	**(54)**	**862**	1,007	(52)	955
Margin money placed	**543**	**–**	**543**	467	–	467
Lease and retail financing	**160**	**–**	**160**	166	–	166
Investment and insurance premium lending	**23**	**(5)**	**18**	25	(5)	20
Total loan assets before collective allowance for credit losses	**1,642**	**(59)**	**1,583**	1,665	(57)	1,608
Less collective allowance for credit losses			**(43)**			(34)
Total loan assets held at amortised cost[(1)]			**1,540**			1,574

(1) Included within this balance are other loans of $363 million (2013: $155 million) pledged as security over issued notes and payables to other external investors and financial institutions.

Of the above amounts, $807 million (2013: $617 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

	2014 $m	2013 $m
Individually assessed provisions for impairment		
Balance at the beginning of the financial year	**57**	37
Provided for during the financial year (note 2)	**12**	22
Loan assets written-off, previously provided for	**(15)**	(2)
Impact of foreign currency translation	**5**	–
Balance at the end of the financial year	**59**	57
Individually assessed provisions as a percentage of total gross loan assets	**3.59%**	3.42%
Collective allowance for credit losses		
Balance at the beginning of the financial year	**34**	25
Provided for during the financial year (note 2)	**5**	9
Impact of foreign currency translation	**4**	–
Balance at the end of the financial year	**43**	34

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

	2014 $m	2013 $m

Note 10
Impaired financial assets

	2014 $m	2013 $m
Impaired loan assets and other financial assets with individually assessed provisions for impairment	**128**	168
Less individually assessed provisions for impairment	**(100)**	(105)
Total net impaired financial assets	**28**	63

Note 11
Other financial assets at fair value through profit or loss

	2014 $m	2013 $m
Loan assets	**326**	252
Investment securities:		
Debt securities	**213**	–
Equity securities	**13**	2
Total other financial assets at fair value through profit or loss[1]	**552**	254

(1) Included within this balance is $212 million (2013: $nil) provided as security over payables to other financial institutions.

Of the above amounts $463 million (2013: $1 million) is 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 2014
continued

	2014 $m	2013 $m
Note 12		
Property, plant and equipment		
Furniture, fittings and leasehold improvements		
Cost	**231**	335
Less accumulated depreciation	**(186)**	(204)
Total furniture, fittings and leasehold improvements	**45**	131
Buildings		
Cost	**5**	5
Less accumulated depreciation	**(1)**	–
Total buildings	**4**	5
Equipment		
Cost	**66**	80
Less accumulated depreciation	**(61)**	(70)
Total equipment	**5**	10
Infrastructure assets		
Cost	**98**	9
Less accumulated depreciation	**(2)**	(2)
Total infrastructure assets	**96**	7
Total property, plant and equipment	**150**	153

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

Note 12

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	Buildings $m	Equipment $m	Infrastructure assets $m	Total $m
Balance at 1 April 2012	177	–	25	7	209
Acquisitions	13	8	2	–	23
Disposals	(3)	–	(2)	–	(5)
Reclassification	1	–	–	–	1
Impairments	(9)	(3)	–	–	(12)
Foreign exchange movements	(4)	–	(1)	–	(5)
Depreciation expense (note 2)	(44)	–	(14)	–	(58)
Balance at 31 March 2013	**131**	**5**	**10**	**7**	**153**
Acquisitions	**31**	**–**	**4**	**93**	**128**
Disposals	**(101)**	**–**	**(1)**	**–**	**(102)**
Impairments	**–**	**–**	**–**	**–**	**(1)**
Foreign exchange movements	**19**	**–**	**1**	**(4)**	**16**
Depreciation expense (note 2)	**(35)**	**(1)**	**(8)**	**–**	**(44)**
Balance at 31 March 2014	**45**	**4**	**5**	**96**	**150**

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 $13 million (2013: $75 million).

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 13
Interests in associates and joint ventures accounted for using the equity method

	2014 $m	2013 $m
Loans and investments without provisions for impairment	**1,622**	1,490
Loans and investments with provisions for impairment	**861**	459
Less provision for impairment	**(571)**	(423)
Loans and investments at recoverable amount	**290**	36
Total interests in associates and joint ventures accounted for using the equity method[1]	**1,912**	1,526

[1] Included within this balance is $ 1,763 million (2013: $1,408 million) relating to interests in associates and $149 million (2013: $118 million) of total interests in joint ventures. All of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity.

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

(i) Financial information of associates and joint ventures that are individually immaterial is as follows:

Consolidated Entity's share of:

	2014 $m	2013 $m
Profit or loss from continuing operations	**136**	54
Other comprehensive income	**18**	(4)
Total comprehensive income	**154**	50

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

	2014 $m	2013 $m
For which the consolidated entity is severally liable	**11**	–

Note 14
Intangible assets

	2014 $m	2013 $m
Goodwill	**335**	306
Intangible assets with indefinite lives	**–**	21
Customer and servicing contracts	**29**	26
Other identifiable intangible assets	**46**	52
Total intangible assets	**410**	405

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

Note 14

Intangible assets continued

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

	Goodwill $m	Intangible assets with indefinite lives $m	Customer and servicing contracts $m	Other identifiable intangible assets $m	Total $m
Balance at 1 April 2012	357	22	35	50	464
Acquisitions	–	–	–	7	7
Reclassifications	(1)	–	–	1	–
Adjustments to purchase consideration[1]	(2)	–	–	(4)	(6)
Disposals	(42)	–	–	–	(42)
Impairment	–	–	(3)	–	(3)
Amortisation expense (note 2)	–	–	(6)	(2)	(8)
Currency translation difference	(6)	(1)	–	–	(7)
Balance at 31 March 2013	**306**	**21**	**26**	**52**	**405**
Acquisitions	**–**	**–**	**–**	**2**	**2**
Reclassifications	**–**	**–**	**3**	**(2)**	**1**
Adjustments to purchase consideration[1]	**–**	**–**	**1**	**(1)**	**–**
Disposals	**–**	**(24)**	**–**	**(7)**	**(31)**
Impairment	**–**	**–**	**(1)**	**–**	**(1)**
Amortisation expense (note 2)	**–**	**–**	**(3)**	**(5)**	**(8)**
Currency translation difference	**29**	**3**	**3**	**7**	**42**
Balance at 31 March 2014	**335**	**–**	**29**	**46**	**410**

(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 Macquarie Group Limited's financial report) and assessed for impairment on a regional legal entity operating group basis.

The recoverable amount of goodwill is determined using the higher of value-in-use and fair value less costs to sell. Value-in-use calculations are based upon discounting estimated post-tax cash flows at a risk-adjusted interest rate appropriate to the cash generating unit to which the goodwill applies. The determination of both 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 values less costs to sell calculations are determined using an earnings multiple approach applicable to that type of business. These have been determined by reference to historical company and industry experience and publicly available data.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 15
Deferred tax assets/(liabilities)

	2014 $m	2013 $m
The balance comprises temporary differences attributable to:		
Other assets and liabilities	177	201
Tax losses	114	113
Investment in securities available for sale, associates, and joint ventures	150	229
Fixed assets	30	42
Set-off of deferred tax liabilities	(74)	(31)
Total deferred tax assets	**397**	554
Financial Instruments	(75)	(94)
Intangible assets	(16)	(17)
Other assets and liabilities	(40)	(28)
Set-off of deferred tax assets	74	31
Total deferred tax liabilities	**(57)**	(108)
Net deferred tax assets	**340**	446

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

Potential tax assets of approximately $12 million (2013: $45 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 to 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 year, within the same tax paying entity.

	2014 $m	2013 $m

Note 16
Trading portfolio liabilities

	2014 $m	2013 $m
Government securities	–	74
Listed equity securities	39	28
Corporate securities	263	11
Total trading portfolio liabilities	**302**	**113**

Note 17
Deposits

	2014 $m	2013 $m
Interest bearing deposits:		
Call	15	16
Term	48	74
Client monies, segregated fund and margin money held	3	7
Total deposits	**66**	**97**

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

Note 18
Other liabilities

	2014 $m	2013 $m
Due to brokers and customers	3,760	3,346
Creditors	266	904
Accrued charges and sundry provisions	610	569
Income tax payable	35	39
Other	68	70
Total other liabilities	**4,739**	**4,928**

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

Note 19
Payables to financial institutions

	2014 $m	2013 $m
Cash collateral on securities lent and repurchase agreements	1,317	242
OECD banks	387	174
Other	70	108
Total payables to financial institutions	**1,774**	**524**

Notes to the financial statements
for the financial year ended 31 March 2014
continued

	2014 $m	2013 $m

Note 20
Other financial liabilities at fair value through profit or loss

	2014 $m	2013 $m
Equity linked notes	**444**	783
Debt issued at fair value	**83**	–
Exchangeable shares[1]	**26**	23
Total other financial liabilities at fair value through profit or loss	**553**	806

(1) Exchangeable shares were issued by two subsidiaries:
Issued in November 2007 as cash consideration for the acquisition of Orion Financial Inc, they are eligible to be exchanged one-for-one for shares in MGL (subject to staff trading restrictions) and will pay dividends equal to the MGL dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no MGL voting rights.
Issued by a subsidiary in August 2009 as consideration for the acquisition of Tristone Capital Global Inc, they are eligible to be exchanged one-for-one for shares in MGL (subject to staff trading restrictions) or cash at MGL'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.

Note 21
Debt issued at amortised cost

	2014 $m	2013 $m
Debt issued at amortised cost	**1,933**	1,779
Total debt issued at amortised cost	**1,933**	1,779

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

Reconciliation of other financial liabilities at fair value through profit or loss and debt issued at amortised cost by major currency:
(in Australian dollar equivalent)

	2014 $m	2013 $m
United States dollars	**1,769**	1,661
South African rand	**636**	592
Korean won	**56**	298
Canadian dollars	**25**	23
Others	**–**	11
Total by currency	**2,486**	2,585

Note 22
Provisions

	2014 $m	2013 $m
Provision for annual leave	**36**	35
Provision for long service leave	**12**	12
Provision for other employee entitlements	**5**	5
Total provisions	**53**	52

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

Note 23

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 (CPS)

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie CPS at face value of $100 each. These instruments were non-cumulative and unsecured and were potentially convertible to Macquarie ordinary shares. These instruments were redeemed during the year.

Macquarie Preferred Membership Interests

On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued $US400million of US$ 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, subject to various conditions, 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 PMI bears discretionary fixed-rate coupons at 8.375 per cent per annum, paid semi-annually. If coupons are not paid, the Company will be restricted from paying dividends or returning capital on ordinary shares until two full coupon payments have been made.

The total number of MGL preference shares that would be issued if Macquarie PMI were exchanged at 31 March 2014 would be 400,000 (31 March 2013: 400,000).

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 23
Loan capital continued

Maturity and currency profiles of loan capital instruments

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

	2014 $m	2013 $m
Less than 12 months	**12**	26
12 November 2014	**–**	9
Subordinated debt	**12**	35
Instruments with conditional repayment obligations:		
Macquarie CPS[1]	**–**	600
Macquarie PMI	**431**	384
Loan capital	**443**	1,019
Less directly attributable issue cost	**(1)**	(1)
Total loan capital[2]	**442**	1,018
Reconciliation of subordinated debt by major currency: *(In Australian dollar equivalent):*		
Australian dollars	**–**	616
United States dollars	**443**	394
Euro	**–**	9
Total loan capital	**443**	1,019
Less directly attributable issue cost	**(1)**	(1)
Total loan capital	**442**	1,018

(1) Accrued interest of $nil (2013: $16 million) is included in the less than 12 months principal sum due to lenders.
(2) The balance is net of fair value hedge accounting adjustments.

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

Note 24

Contributed equity

	2014 number of shares	2013 number of shares	2014 $m	2013 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**14,967,528,510**	15,365,339,346	**15,046**	15,426
Issue of shares to MGL on retraction of exchangeable shares in the range of $40.43 to $53.62 (31 March 2013:$24.98 to $37.53) per share	**11,774**	379,687	**1**	13
Issue of shares to MGL on retraction of exchangeable shares in the range of $45.64 to $55.06 (31 March 2013:$25.29 to $31.16) per share	**136,066**	244,931	**8**	7
Capital reduction on distribution	**–**	–	**(996)**	–
Capital reduction of shares at $1.00 per share	**–**	(398,435,454)	**–**	(400)
Closing balance of fully paid ordinary Shares	**14,967,676,350**	14,967,528,510	**14,059**	15,046
Contributed equity on group restructures[1]				
Balance at the beginning of the financial year			**(14,023)**	(14,023)
Balance at the end of the financial year			**(14,023)**	(14,023)
Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year			**294**	306
Additional paid in capital /(return of capital)[2],[3]			**33**	(12)
Balance at the end of the financial year			**327**	294
Contributed equity			**363**	1,317

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

(2) During the year ended 31 March 2010, the Company's parent entity, MGL, introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff of the Consolidated Entity. Under the MEREP the staff retained profit share is held in the shares of MGL by Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust). Where MEREP awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the equity provided as a capital contribution from MGL. For the year ended 31 March 2014, MEREP related compensation expense and its related tax effects treated as additional paid in capital in the Consolidated entity totaled $33,614,344. For the year ended 31 March 2013, reversal of MEREP related compensation expense for not meeting the performance hurdles and its related tax effects treated as return of capital totaled $1,896,379. For further information regarding the terms and conditions of MEREP refer to note 29 – Employee equity participation.

(3) MGL operates a share-based compensation plan, the Macquarie Group Employee Share Option Plan (MGESOP), which grants options to employees of the Consolidated Entity. Staff eligible to participate are those of Associate Director level and above and certain consultants to the Consolidated Entity. The options are measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution from MGL. For the year ended 31 March 2014, reversal of MGESOP related compensation expense for not meeting the performance hurdles treated as return of capital totaled $76,877. For the year ended 31 March 2013, reversal of MGESOP related compensation expense for not meeting the performance hurdles treated as return of capital totaled $10,082,487. In addition, pursuant to an amendment to the terms of the Macquarie Group Staff Share Acquisition Plan (MGSSAP) and Employee Share Plan (ESP) to allow the issue of new shares as an alternative to acquiring existing shares on-market, compensation expense relating to these plans was recognised as additional paid in capital during the financial year, totaling $49,219 (2013: $54,210). Disclosures on the MGESOP, MGSSAP and ESP are disclosed in note 29 – Employee equity participation.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 25
Reserves, retained earnings and non-controlling interests

	2014 $m	2013 $m
Reserves		
Foreign currency translation reserve		
Balance at the beginning of the financial year	**(317)**	(225)
Currency translation differences arising during the financial year, net of hedge and tax	**120**	(92)
Balance at the end of the financial year	**(197)**	(317)
Available for sale reserve		
Balance at the beginning of the financial year	**210**	20
Revaluation movement for the financial year, net of tax	**319**	161
Transfer to income statement upon impairment, net of tax	**1**	43
Transfer to income statement on realisation, net of tax	**(236)**	(14)
Balance at the end of the financial year	**294**	210
Cash flow hedging reserve		
Balance at the beginning of the financial year	**–**	(3)
Revaluation movement for the financial year, net of tax	**–**	3
Balance at the end of the financial year	**–**	–
Share of reserves of interests in associates and joint ventures using the equity method		
Balance at the beginning of the financial year	**(6)**	(27)
Share of other comprehensive income/(expense) during the financial year	**13**	21
Balance at the end of the financial year	**7**	(6)
Total reserves at the end of the financial year	**104**	(113)
Retained earnings		
Balance at the beginning of the financial year	**1,856**	1,625
Profit attributable to ordinary equity holders of Macquarie Financial Holdings Limited	**509**	231
Dividends paid on ordinary share capital (note 4)	**(718)**	–
Change in non-controlling ownership interest	**(5)**	–
Balance at the end of the financial year	**1,642**	1,856
Non-controlling interests		
Ordinary share capital	**27**	33
Preference share capital	**2**	2
Foreign currency translation reserve	**–**	(15)
Retained earnings	**(1)**	49
Total non-controlling interests	**28**	69

(1) The prior year balances of foreign currency translation reserve and retained earnings have been restated. Retained earnings is increased by $102 million with a corresponding decrease in foreign currency translation reserve at 1 April 2012 and at 31 March 2013. There is no impact on total capital and reserves attributable to equity holders of Macquarie Financial Holdings Limited or total equity.

	2014 $m	2013 $m

Note 26
Notes to the statement of cash flows

Reconciliation of cash and cash equivalents

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

	2014 $m	2013 $m
Due from related body corporate entities[1]	**4,970**	2,540
Receivables from financial institutions[2],[3]	**1,516**	1,459
Trading portfolio assets	**40**	44
Loan assets held at amortised cost	**458**	419
Cash and cash equivalents at the end of the financial year	**6,984**	4,462

[1] This comprises cash balances held with a related body corporate entity, Macquarie Bank Limited (MBL).
[2] Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses as per note 1(xvii) – Summary of significant accounting policies.
[3] Cash and cash equivalents include $79 million (March 2013: $15 million) held in segregated deposit fund and escrow accounts which are restricted for use.

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

	2014 $m	2013 $m
Profit after income tax	**502**	229
Adjustments to profit:		
Depreciation and amortisation	**51**	68
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(245)**	11
Provision and impairment charge on financial and non-financial assets	**157**	248
Net gains on sale of investment securities available for sale and associates and joint ventures	**(374)**	(294)
Share-based payment expense/(reversal)	**33**	(12)
Share of net profits of associates and joint ventures accounted for using the equity method	**(136)**	(54)
Changes in assets and liabilities:		
Change in value of associates due to dividends received	**60**	60
Change in fees and non-interest income receivable	**(113)**	2
Change in fees and commissions payable	**(31)**	(15)
Change in tax balances	**94**	119
Change in provisions for employee entitlements	**1**	(12)
Change in loan assets	**3,481**	(1,496)
Change in debtors, prepayments, accrued charges and creditors	**207**	(58)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(787)**	746
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**520**	1,507
Net cash flows from operating activities	**3,420**	1,049

Cash flows used in financing activities do not include the non cash transaction related to SYD distribution. Refer note 5 – Dividends and distribution paid or provided for.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

	2014 $m	2013 $m

Note 27
Related party information
Ultimate parent entity

The Consolidated Entity's ultimate parent entity is Macquarie Group Limited (MGL), a company incorporated in Australia and which produces financial statements that are available for public use.

Transactions between the Consolidated Entity and the ultimate parent entity principally arise from the provision and repayment of loans and the provision of administration and central support functions.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of the tax funding agreement are set out in note 1(vi) – Summary of significant accounting policies. During the year ended 31 March 2014, amount receivable by the Consolidated Entity attributed to MGL as the head entity of the tax consolidated group amounted to $457 million (2013: $118 million receivable).

During the year ended 31 March 2014, the Consolidated Entity has sold to MGL, an equity investment in securities available for sale for $1,304 million and recognised a gain on sale of $277 million. This sale was made on terms equivalent to an arm's length transaction

The following balances with the ultimate parent entity were outstanding as at financial year end:

	2014 $m	2013 $m
Amounts payable	**(8,003)**	(6,305)

Other related body corporate entities

Transactions between the Consolidated Entity and other related body corporate entities under common control principally arise from the granting of loans, the provision of management and administration services and the provision of guarantees in respect of debt.

During the financial year, the following transactions occurred with other related body corporate entities:

	2014 $m	2013 $m
Interest income received/receivable	**194**	102
Interest expense paid/payable	**(331)**	(279)
Fee and commission income	**61**	123
Other operating income/(expense)	**24**	(66)

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

	2014 $m	2013 $m
Amounts receivable	**8,165**	4,573
Amounts payable	**(3,207)**	(359)

	2014 $m	2013 $m

Note 27

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) occurred with associates and joint ventures:

	2014 $m	2013 $m
Fee and commission income[1]	**608**	528
Gains on sale of securities (note 2)[2]	**52**	157
Dividends and distributions[3]	**57**	60
Brokerage, commission and trading-related expenses	**–**	(3)

(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 profit but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding at the end of the financial year (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in note 13 – Interests in associates and joint ventures accounted for using the equity method):

	2014 $m	2013 $m
Amounts receivable	**76**	344
Amounts payable	**(18)**	(10)

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 28
Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of MFHL during the past two financial periods ended 31 March 2014 and 31 March 2013, unless otherwise indicated:

Voting Directors

M. Ferrier	
C.T. Lynam	(retired 31 May 2013)
R.N. Upfold	
A.J. Lewis	(appointed 31 May 2013)
K.J. Hannan	(appointed 31 May 2013)

In addition to the Voting Directors listed above the following persons, who were members of MGL's Executive Committee, also had authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries during the financial periods ended 31 March 2014 and 31 March 2013.

Executives

S.D. Allen	
T.C. Bishop	
A.J. Downe	
G.A. Farrell	
P.J. Maher	(retired 3 May 2013)
N.W. Moore	
S. Vrcelj	
G.C. Ward	
S. Wikramanayake	
N. Sorbara	(appointed 1 January 2013)

	For the year ended 31 March 2014 $	For the year ended 31 March 2013 $
Key Management Personnel Remuneration		
Amounts paid to Key Management Personnel in relation to their role as KMP of the Company and its subsidiaries	**29,614,091**	21,651,938

The Key Management Personnel (KMP) did not receive any other benefits or consideration in connection with the management of the Company and its subsidiaries. All other benefits that were received by the KMP were solely related to other services performed with respect to their employment by MGL and its subsidiaries.

Note 29

Employee equity participation

Macquarie Group Employee Retained Equity Plan

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

Award Types under the MEREP

Restricted Share Units (RSUs)

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

Deferred Share Units (DSUs)

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

Performance Share Units (PSUs)

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

Restricted Shares

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 29

Employee equity participation continued

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

	Number of RSU Awards 2014	Number of RSU Awards 2013
RSUs on issue at the beginning of the financial year	**11,437,275**	9,675,755
Consolidation of one ordinary share into 0.9438 ordinary shares(1)	**(626,922)**	–
Granted during the financial year	**2,553,693**	4,156,230
Forfeited during the financial year	**(339,756)**	(515,258)
Vested RSUs withdrawn from the MEREP during the financial year	**(2,724,531)**	(1,944,674)
Transfers from/ (to) related body corporate entities	**(47,646)**	65,222
RSUs on issue at the end of the financial year	**10,252,113**	11,437,275
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**–**	10,451

The weighted average fair value of the RSU Awards granted during the financial year was $40.85 (2013: $26.77).

	Number of DSU Awards 2014	Number of DSU Awards 2013
DSUs on issue at the beginning of the financial year	**3,004,346**	2,384,918
Adjustment of DSUs due to 0.9438 ordinary share consolidation(1)	**(163,285)**	–
Granted during the financial year	**502,737**	1,220,209
Forfeited during the financial year	**(163,361)**	(270,022)
Exercised during the financial year	**(628,801)**	(288,979)
Transfers from related body corporate entities	**(38,084)**	(41,780)
DSUs on issue at the end of the financial year	**2,513,552**	3,004,346
DSUs exercisable at the end of the financial year	**230,210**	166,945

The weighted average fair value of the DSU Awards granted during the financial year was $40.63 (2013: $28.40).

	Number of PSU Awards 2014	Number of PSU Awards 2013
PSUs on issue at the beginning of the financial year	**461,173**	163,808
Adjustment of PSUs due to 0.9438 ordinary share consolidation(1)	**(23,179)**	–
Granted during the financial year	**98,633**	26,814
Exercised during the financial year	**(17,269)**	–
Expired during the financial year	**(130,075)**	(34,641)
Transfers (to)/from related parties	**–**	305,192
PSUs on issue at the end of the financial year	**389,283**	461,173

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

	Number of Restricted Share Awards 2014	Number of Restricted Share Awards 2013
Restricted shares on issue at the beginning of the financial year	**80,087**	31,795
Consolidation of one ordinary share into 0.9438 ordinary shares(1)	**(3,735)**	–
Granted during the financial year	**55,662**	103,398
Released during the financial year	**(22,042)**	(55,106)
Forfeited during the financial year	**–**	–
Restricted shares on issue at the end of the financial year	**109,972**	80,087

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

The weighted average fair value of the restricted shares granted during the financial year was $51.79 (2013: $32.25).

Note 29

Employee equity participation continued

The awards are measured at their grant dates based on their fair value and for each PSU the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance.

For the year ended 31 March 2014, compensation expense relating to the MEREP totalled $140 million (2013: $138 million).

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

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 29

Employee equity participation continued

Vesting periods are as follows:

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

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

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

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

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

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

Note 29

Employee equity participation continued

Performance Share Units

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

The hurdles are outlined below.

Performance hurdle 1

	Reference group	
Hurdle	**Granted after 31 March 2013**	**Granted on or before 31 March 2013**
50 per cent of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three and four years) compared to a reference group of global peers. A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent vesting at the 75th percentile.	The current reference group[1] comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG.	The reference group comprises ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation, Suncorp Metway Limited, Bank of America Corporation Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group AG, JP Morgan Chase, Morgan Stanley and UBS AG.

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

Performance hurdle 2

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

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

Other arrangements

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

Compensation expense relating to these awards for the year ending 31 March 2014 was $0.1 million (2013: $1 million).

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 29

Employee equity participation continued

Option Plan

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

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

At 31 March 2014 there were 17 (2013: 557) MFHL participants in the MGESOP.

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

	Number of options 2014	Weighted average exercise price 2014 $	Number of options 2013	Weighted average exercise price 2013 $
Outstanding at the beginning of the financial year	**4,413,505**	**52.50**	10,424,129	60.00
Adjustment of Options due to 0.9438 ordinary share consolidation[1]	**(4,661)**	**43.16**	–	–
Forfeited during the financial year	**–**	**–**	(964,970)	50.79
Exercised during the financial year	**(229,627)**	**32.24**	(25,998)	28.32
Transfers from/(to) related body corporate entities	**(6,220)**	**51.75**	(329,774)	54.70
Lapsed during the financial year	**(4,111,031)**	**53.67**	(4,689,882)	69.50
Outstanding at the end of the financial year	**61,966**	**50.49**	4,413,505	52.50
Exercisable at the end of the financial year	**61,966**	**50.49**	4,361,483	52.62

For options exercised during the financial year the weighted average share price at the date of exercise was $47.30[2] (2013: $31.27).

The range of exercise prices for options outstanding at the end of the financial year was $36.35 to $54.92 (2013: $17.10 to $63.09).

(1) Consolidation applied to Options held in the MGESOP as at the record date for the consolidation.
(2) Some of the exercise prices reflect the impact a consolidation of one MGL share into 0.9438 of an ordinary share.

The weighted average remaining contractual life for the share options outstanding as at 31 March 2014 was 0.46 years (2013: 0.41 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	Number of options 2014	Remaining life (years) 2014	Number of options 2013	Remaining life (years) 2013
10 – 20	**–**	**–**	2,000	0.94
20 – 30	**–**	**–**	89,655	0.88
0 – 40	**9,109**	**0.24**	169,546	0.73
40 – 50	**12,270**	**0.53**	101,799	0.70
50 – 60	**40,587**	**0.49**	4,020,505	0.38
60 – 70	**–**	**–**	30,000	0.10
	61,966	**0.46**	4,413,505	0.41

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

There were no options issued in the financial year.

The number of outstanding options, including those not able to be exercised due to performance hurdles not being met as at 31 May 2013 is 61,966.

The market value of shares issued during the year as a result of the exercise of these options was $11 million (2013: $0.81 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2014 was $4 million (2013: $164 million). No unissued shares, other than those referred to above, are under option under the MGESOP as at the date of this report.

Note 29

Employee equity participation continued

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

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

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

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

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

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

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

For the year ended 31 March 2014, compensation expense relating to exchangeable shares, retention securities and option plans totalled $0.77 million (2013: credit of $10 million).

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 29

Employee equity participation continued

Employee Share Plan

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

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

The latest offer under the ESP was made during November 2013. A total of 51 (2013: 55) staff participated in this offer. On 6 December 2013, the participants were each allocated 18 (2013: 30) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $53.70 (2012: $32.85), a total of 918 (2013: 1,650) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

Historical Share Plans

Shares are no longer being issued or purchased under the Staff Share Acquisition Plan nor the Non-Executive Director Share Acquisition Plan. However employees and Non-Executive Directors still hold shares issued in previous years.

Other plans

The Consolidated Entity operates other local share-based compensation plans, none of which, individually or in aggregate are material.

	2014 $m	2013 $m

Note 30
Contingent liabilities and commitments

The following details of contingent liabilities and assets exclude derivatives.

	2014 $m	2013 $m
Contingent liabilities exist in respect of:		
Guarantees	**166**	107
Indemnities	**117**	18
Letters of credit	**1**	–
Total contingent liabilities[(1)]	**284**	125
Commitments exist in respect of:		
Undrawn credit facilities	**1,626**	1,374
Forward asset purchases	**368**	351
Total commitments[(2)]	**1,994**	1,725
Total contingent liabilities and commitments	**2,278**	1,850

(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 31
Lease commitments

	2014 $m	2013 $m
Non-cancellable operating leases expiring:		
Not later than one year	**75**	69
Later than one year and not later than five years	**231**	189
Later than five years	**124**	139
Total operating lease commitments	**430**	397

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 2014
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Note 32
Structured entities

The Consolidated Entity engages in various transactions with Structured Entities (SEs). SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (e.g. decisions relate to administrative tasks only, and contractual arrangements determine the direction of activities). Generally, SEs do not have a range of operating and financing activities for which substantive decision-making is required continuously. The Consolidated Entity has interests in SEs that are involved in securitisations, asset backed financing structures and investment funds.

Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets of the Consolidated Entity or of its clients.

The Consolidated Entity engages in securitisation of mortgages, finance leases, credit card receivables and other types of instruments. The Consolidated Entity may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual interest units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to interest and gains and losses from revaluing financial instruments.

Asset-backed financing

Asset-backed vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Consolidated Entity or its clients. The assets are normally pledged as collateral to the lenders.

The Consolidated Entity engages in raising finance for assets such as aircraft, rail cars, electronic and IT equipment. The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to revaluation of derivatives and dividends.

Investment funds

SEs formed for the purpose of offering alternative investment opportunities relate primarily to fund-linked or funds of funds products. Investment structures are designed to provide investors with specified returns based on the returns of an underlying security, referenced asset or index by issuing credit-linked or equity-linked notes to investors. SEs typically obtain exposure to the underlying asset or index through a derivative instrument (e.g. swaps or call options) and place the remaining proceeds on deposit to serve as collateral for the derivative.

The Consolidated Entity may act as sponsor, manager, broker, funder, liquidity provider or derivative counterparty.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to management fees, interest and revaluation of derivatives.

At 31 March 2014, the Consolidated Entity had no interests in unconsolidated investment funds.

Interests held

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and currency swaps) and positions where the Consolidated Entity: (i) creates rather than absorbs variability of the unconsolidated SE (e.g. purchase of credit protection under a credit default swap); (ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs; and (iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

Note 32

Structured entities continued

The following table presents the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs as at 31 March 2014:

	Nature of activity	
	Securitisations $m	Asset-backed financing $m
		2014
Carrying value of assets		
Trading portfolio assets	614	–
Derivative assets	–	21
Investment securities available for sale	–	9
Loan assets held at amortised cost	–	35
Total carrying value of assets	614	65
Maximum exposure to loss		
Debt and equity held	614	44
Derivatives and undrawn commitments	–	21
Total maximum exposure to loss	614	65

Maximum exposure to loss is the carrying value of debt and equity held, the undrawn amount for commitments, the maximum amount if guarantees were to be called upon, and the notional amounts of derivative instruments. The amounts for commitments, guarantees and derivatives are reduced for any liabilities already recognised.

Of the above interests, the Consolidated Entity holds $533 million in subordinated interests for securitisation activities. These carrying values also represent the maximum exposure to loss.

The subordinated securitisation interests are primarily trading positions that are typically managed under market risk described in note 34.3. For these reasons, information on size and capital structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented.

Notes to the financial statements
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Note 33
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(x)–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 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $nil (2013: $nil).

During the year the Consolidated Entity recognised $nil (2013: $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 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $2 million positive value (2013: $3 million negative value).

During the year fair value losses on the hedging instruments of $1 million have been recognised (2013: $3 million losses), offset by $1 million (2013: $3 million gains) of gains on the hedged item.

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

At 31 March 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $10 million positive value (2013: $30 million negative value). During the year the Consolidated Entity recognised $nil (2013: $1 million gains) in the income statement due to hedge ineffectiveness on net investment hedges.

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

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

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

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

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

Note 34

Financial risk management

Risk Management Group

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

RMG is independent of all other areas of the Consolidated Entity. The Head of RMG, as Macquarie's Chief Risk Officer, is a member of the Executive Committee of MGL and 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.

The risks which the Consolidated Entity is exposed to are managed on a globally consolidated basis for MGL as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions (i.e. not differentiating where the risk is taken within Macquarie).

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 34.1
Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due.

The credit risk exposures within the Consolidated Entity are managed on a Group basis by RMG.

Maximum exposure to credit risk

The table below details the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets before the benefit of collateral and credit enhancements.

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia				
Governments	–	–	–	–
Financial institutions	46	–	–	–
Other	–	–	–	15
Total Australia	46	–	–	15
Asia Pacific				
Governments	–	–	–	–
Financial institutions	809	–	–	–
Other	–	–	–	–
Total Asia Pacific	809	–	–	–
Europe, Middle East and Africa				
Governments	–	–	–	–
Financial institutions	343	–	15	–
Other	–	–	8	63
Total Europe, Middle East and Africa	343	–	23	63
Americas				
Governments	–	–	–	–
Financial institutions	2,045	573	138	53
Other	–	130	6	132
Total Americas	2,045	703	144	185
Total gross credit risk	3,243	703	167	263

The following provides detail around the active management of credit risk by the Consolidated Entity:

The Consolidated Entity enters into enforceable netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Macquarie Securities Group and Fixed Income, Currencies and Commodities. Stock borrowing and reverse repurchase arrangements entered into by the Consolidated Entity with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Other financial assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities $m	Credit commitments and contingent liabilities $m	Total $m
					2014
–	–	–	–	1	1
28	8	–	–	98	180
85	140	–	4,245	77	4,562
113	148	–	4,245	176	4,743
–	1	–	–	–	1
–	33	–	–	70	912
623	29	–	537	25	1,214
623	63	–	537	95	2,127
–	–	–	–	–	–
–	124	330	–	101	913
740	88	6	2,862	322	4,089
740	212	336	2,862	423	5,002
–	102	–	–	–	102
–	776	10	–	422	4,017
2,714	239	193	521	1,162	5,097
2,714	1,117	203	521	1,584	9,216
4,190	1,540	539	8,165	2,278	21,088

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 34.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m
Australia			
Governments	–	–	–
Financial institutions	25	–	9
Other	–	–	30
Total Australia	25	–	39
Asia Pacific			
Governments	–	–	–
Financial institutions	558	–	17
Other	–	–	–
Total Asia Pacific	558	–	17
Europe, Middle East and Africa			
Governments	–	–	–
Financial institutions	383	–	6
Other	–	3	–
Total Europe, Middle East and Africa	383	3	6
Americas			
Governments	–	14	–
Financial institutions	1,205	315	43
Other	–	137	5
Total Americas	1,205	466	48
Total gross credit risk	2,171	469	110

The following provides detail around the active management of credit risk by the Consolidated Entity:

The Consolidated Entity enters into enforceable netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Macquarie Securities Group and Fixed Income, Currencies and Commodities. Stock borrowing and reverse repurchase arrangements entered into by the Consolidated Entity with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Debt investment securities available for sale $m	Other financial assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities $m	Credit commitments and contingent liabilities $m	Total $m
						2013
–	–	–	–	–	–	–
135	31	106	–	4,263	–	4,569
34	675	219	–	38	320	1,316
169	706	325	–	4,301	320	5,885
–	–	–	–	–	–	–
–	–	132	–	–	5	712
–	990	30	–	4	129	1,153
–	990	162	–	4	134	1,865
–	–	–	–	–	–	–
10	–	74	247	–	–	720
–	500	82	5	–	155	745
10	500	156	252	–	155	1,465
–	–	75	–	–	–	89
6	–	406	–	–	66	2,041
2	1,788	450	–	268	1,175	3,825
8	1,788	931	–	268	1,241	5,955
187	3,984	1,574	252	4,573	1,850	15,170

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 34.1
Credit risk continued

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.

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.

For Over The Counter (OTC) derivative contracts, the Company 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.

Other assets

Brokerage receivables of $3,662 (2013: $3,311 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.

Note 34.1

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 – 2014

	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	3,191	52	–	–	–	3,243
Trading portfolio assets						703
Governments	–	–	–	–	–	–
Financial institutions	66	507	–	–	–	573
Other	60	70	–	–	–	130
Derivative assets						167
Financial institutions	128	25	–	–	–	153
Other	–	14	–	–	–	14
Debt investment securities available for sale						263
Financial institutions	–	53	–	–	–	53
Other	2	208	–	–	–	210
Other assets						4,190
Governments	–	–	–	–	–	–
Financial institutions	–	–	–	–	28	28
Other	2,656	1,082	11	352	61	4,162
Loan assets held at amortised cost						1,540
Governments	96	7	–	–	–	103
Financial institutions	570	368	3	–	–	941
Other	58	296	118	–	24	496
Other financial assets at fair value through profit or loss						539
Financial institutions	323	17	–	–	–	340
Other	–	199	–	–	–	199
Due from related body corporate entities						8,165
Financial institutions	–	–	–	–	–	–
Other	657	–	–	7,508	–	8,165
Total	7,807	2,898	132	7,860	113	18,810

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

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 34.1
Credit risk continued

Credit quality – 2013

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions[1]	2,122	49	–	–	–	2,171
Trading portfolio assets						469
Governments	14	–	–	–	–	14
Financial institutions	59	256	–	–	–	315
Other	9	131	–	–	–	140
Derivative assets						110
Financial institutions	45	30	–	–	–	75
Other	–	35	–	–	–	35
Debt investment securities available for sale						187
Financial institutions	151	–	–	–	–	151
Other	27	9	–	–	–	36
Other financial assets						3,984
Financial institutions	–	1	–	–	30	31
Other	2,552	1,053	–	303	45	3,953
Loan assets held at amortised cost						1,574
Governments	73	2	–	–	–	75
Financial institutions	532	183	3	–	–	718
Other	141	467	118	–	55	781
Other financial assets at fair value through profit or loss						252
Financial institutions	159	88	–	–	–	247
Other	–	5	–	–	–	5
Due from related body corporate entities						4,573
Financial institutions	4,263	–	–	–	–	4,263
Other	–	–	–	310	–	310
Total	10,147	2,309	121	613	130	13,320

(1) In the year ended 31 March 2013, margin monies placed of $419 million were included in Receivable from financial institutions. These balances are now included in Loan assets held at amortised cost.

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

Note 34.1

Credit risk continued

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

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 91 days $m	Impaired $m	Total $m
						2014
Other assets						
Financial institutions	**28**	**–**	**–**	**–**	**–**	**28**
Other	**17**	**18**	**16**	**–**	**10**	**61**
Loan assets held at amortised cost						
Other	**–**	**6**	**–**	**–**	**18**	**24**
Total	**45**	**24**	**16**	**–**	**28**	**113**

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 91 days $m	Impaired $m	Total $m
						2013
Other assets						
Financial institutions	30	–	–	–	–	30
Other	26	7	4	–	8	45
Loan assets held at amortised cost						
Other	–	–	–	–	55	55
Total	56	7	4	–	63	130

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 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.

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

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continued

Note 34.2

Liquidity risk

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee, the MGL Board and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee. The Asset and Liability Committee includes the Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer, Treasurer and Operating Group Heads.

Contractual undiscounted cash flows

The following table below summarises 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.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
						2014
Trading portfolio liabilities	–	302	–	–	–	302
Derivative financial instruments (trading)	–	208	–	–	–	208
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	942	169	110	–	1,221
Contractual amounts receivable	–	(943)	(170)	(108)	–	(1,221)
Deposits	17	49	–	–	–	66
Other liabilities[1]	–	3,993	–	–	–	3,993
Other financial liabilities at fair value through profit or loss	–	332	115	128	–	575
Due to related body corporate entities	2,232	685	1,429	5,520	3,030	12,896
Payable to financial institutions	412	1,130	55	187	–	1,784
Debt issued at amortised cost	–	73	16	709	2,373	3,171
Subordinated debt	–	18	18	467	–	503
Total undiscounted cash flows	2,661	6,789	1,632	7,013	5,403	23,498
Contingent liabilities	–	284	–	–	–	284
Commitments	–	1,994	–	–	–	1,994
Total undiscounted contingent liabilities and commitments[2]	–	2,278	–	–	–	2,278

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

(2) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

Note 34.2

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
						2013
Trading portfolio liabilities	–	113	–	–	–	113
Derivative liabilities (trading)	–	88	–	–	–	88
Derivative liabilities (hedging relationship)						
Contractual amounts payable	–	760	148	29	–	937
Contractual amounts receivable	–	(734)	(134)	(6)	–	(874)
Deposits	24	69	4	–	–	97
Other liabilities[1]	–	4,202	–	–	–	4,202
Payables to financial institutions	130	111	150	119	21	531
Other financial liabilities at fair value through profit or loss	–	460	173	187	–	820
Due to related body corporate entities	36	207	246	5,265	2,912	8,666
Debt issued at amortised cost	–	18	58	589	2,198	2,863
Macquarie Convertible Preference Securities	–	633	–	–	–	633
Subordinated debt	–	16	16	455	–	487
Total undiscounted cash flows	190	5,943	661	6,638	5,131	18,563
Contingent liabilities	–	125	–	–	–	125
Commitments	–	1,703	22	–	–	1,725
Total undiscounted contingent liabilities and commitments[2]	–	1,828	22	–	–	1,850

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

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Note 34.3
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 interest rate 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**.**

The Company is not exposed to any material market risk.

Value-at-Risk (VaR) figures (1-day, 99 per cent confidence level)

The table below shows the average, maximum and minimum VaR over the year for the major markets in which the Consolidated Entity operates. The VaR shown in the table is based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2014 Average $m	**2014 Maximum $m**	**2014 Minimum $m**	2013 Average $m	2013 Maximum $m	2013 Minimum $m
Equities	**1.08**	**2.37**	**0.54**	0.81	2.06	0.58
Interest rates	**5.93**	**9.60**	**2.16**	5.44	7.42	3.86
Foreign exchange and bullion	**0.28**	**0.90**	**0.07**	0.31	1.89	0.04
Commodities and energy	**0.27**	**1.50**	**0.04**	0.07	0.35	–
Aggregate	**6.08**	**9.39**	**2.37**	5.38	7.37	4.07

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VAR model. This combined approach has been approved by APRA and is subject to periodic review.

Interest rate risk

The Consolidated Entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate small levels of interest rate risk. Wherever possible, these interest rate risks are transferred into the trading books of FICC and Group Treasury and managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book. These residual risks have independent limits that are monitored by RMG.

These residual interest rate risks are not material to the Consolidated Entity.

Note 34.3

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 the Consolidated Entity's investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

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

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

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

The hedging policy of the group is designed to reduce the sensitivity of the group's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD and CAD.

	2014		2013	
	Movement in exchange price %	**Sensitivity of equity after tax $m**	Movement in exchange price %	Sensitivity of equity after tax $m
Australian dollar	**+10**	**(54.5)**	+10	(48.3)
Australian dollar	**-10**	**66.6**	-10	59.0

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Note 34.3

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:

	2014		2013	
Geographic region	Movement in equity price %	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of equity after tax $m
Listed				
Australia	+10	29.5	+10	109.0
Asia Pacific	+10	1.3	+10	1.2
Europe, Middle East and Africa	+10	0.3	+10	0.3
Americas	+10	12.8	+10	29.8
Unlisted	+10	68.2	+10	45.7
Listed				
Australia	-10	(29.5)	–10	(109.0)
Asia Pacific	-10	(1.3)	–10	(1.2)
Europe, Middle East and Africa	-10	(0.3)	–10	(0.3)
Americas	-10	(12.8)	–10	(29.8)
Unlisted	-10	(68.2)	–10	(45.7)

Note 35

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; and
– for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty;
– for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations; and
– for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA).

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

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Note 35

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 approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

– the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;

– the fair values of variable rate financial instruments, including loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase or repurchase agreements, are approximated by 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 is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower;

– the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity’s own credit spread;

– substantially all of the Consolidated Entity’s commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and

– the fair values of balances due from or to related body corporate entities (in the consolidated financial statements) are approximated by their carrying amount.

Note 35

Fair values of financial assets and liabilities continued

The table below summarises the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity at 31 March 2014 and 31 March 2013:

	2014 Carrying Value $m	2014 Fair Value $m	2013 Carrying Value $m	2013 Fair Value $m
Assets				
Receivables from financial institutions	**3,243**	**3,243**	2,171	2,171
Other financial assets	**4,190**	**4,190**	3,984	3,984
Loan assets held at amortised cost	**1,540**	**1,550**	1,574	1,602
Due from related body corporate entities	**8,165**	**8,165**	4,573	4,573
Total assets	**17,138**	**17,148**	12,302	12,330
Liabilities				
Deposits	**66**	**66**	97	97
Other financial liabilities	**3,993**	**3,993**	4,202	4,202
Payables to financial institutions	**1,774**	**1,774**	524	524
Due to related body corporate entities	**11,210**	**11,210**	6,664	6,664
Debt issued at amortised cost	**1,933**	**1,956**	1,779	1,842
Loan capital at amortised cost	**442**	**471**	1,018	1,065
Total liabilities	**19,418**	**19,470**	14,284	14,394

As at 31 March 2014, the above fair values are predominantly classified as level 2 in the fair value hierarchy, except for cash and at call amounts of $1,554 million in 'Receivables from financial institutions', $546 million in 'Loan assets held at amortised cost', $17 million in 'Deposits', $8 million in 'Payables to financial institutions' and $934 million in 'Loan capital' classified as level 1.

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Note 35

Fair values of financial assets and liabilities continued

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value of the Consolidated Entity:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				2014
Assets				
Trading portfolio assets	**73**	**662**	**8**	**743**
Derivative assets	**3**	**147**	**17**	**167**
Investment securities available for sale	**669**	**379**	**818**	**1,866**
Other financial assets at fair value through profit or loss	**–**	**552**	**–**	**552**
Total assets	**745**	**1,740**	**843**	**3,328**
Liabilities				
Trading portfolio liabilities	**39**	**263**	**–**	**302**
Derivative liabilities	**–**	**224**	**1**	**225**
Other financial liabilities at fair value through profit or loss	**–**	**553**	**–**	**553**
Total liabilities	**39**	**1,040**	**1**	**1,080**
				2013
Assets				
Trading portfolio assets	392	364	68	824
Derivative assets	9	91	10	110
Investment securities available for sale	2,048	389	476	2,913
Other financial assets at fair value through profit or loss	–	254	–	254
Total assets	2,449	1,098	554	4,101
Liabilities				
Trading portfolio liabilities	26	87	–	113
Derivative liabilities	–	127	1	128
Other financial liabilities at fair value through profit or loss	–	806	–	806
Total liabilities	26	1,020	1	1,047

Note 35

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 2014:

	Trading portfolio assets	Investment securities available for sale	Derivative financial instruments (net replacement values)[2]	Total
	$m	$m	$m	$m
Balance at the beginning of the financial year	68	476	9	553
Purchases	8	394	1	403
Sales	(68)	(171)		(239)
Issues	–	45	–	45
Transfer out of Level 3	–	(64)	7	(57)
Fair value gains/(losses) recognised in the income statement[1]	–	72	(1)	71
Fair value gains recognised in other comprehensive income[1]	–	66	–	66
Balance at the end of the financial year	8	818	16	842
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]	–	33	13	46

(1) The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Levels 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative financial assets are $17million (2013: $10 million) and derivative liabilities are $1 million (2013: $1 million).

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Note 35

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 2013:

	Trading portfolio assets $m	Investment securities available for sale $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
Balance at the beginning of the financial year	–	369	9	378
Purchases	73	167	1	241
Sales	(20)	(58)	–	(78)
Transfer into Level 3	–	–	–	–
Transfer out of Level 3	11	–	(1)	10
Fair value gains/(losses) recognised in the income statement[1]	4	(6)	–	(2)
Fair value gains recognised in other comprehensive income[1]	–	4	–	4
Balance at the end of the financial year	68	476	9	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]	4	(5)	3	2

(1) The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Levels 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative financial assets are $10 million (2012: $9 million) and derivative liabilities are $1 million (2012: $nil).

Note 35

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 Level 2. Transfers into level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of level 3 were principally due to valuation inputs becoming observable during the year.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation technique 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:

	2014 $m	2013 $m
Balance at the beginning of the financial year	**9**	8
Deferral on new transactions	**2**	4
Amounts recognised in the income statement during the financial year	**(6)**	(3)
Balance at the end of the financial year	**5**	9

Sensitivity analysis of valuations using unobservable inputs

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

	Favourable changes		Unfavourable changes	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
Product type				**2014**
Equity and equity linked products	**3**	**65**	**(3)**	**(44)**
Credit Products	**–**	**7**	**–**	**(7)**
Total	**3**	**72**	**(3)**	**(51)**
Product type				**2013**
Equity and equity linked products	3	58	(3)	(39)
Credit Products	1	–	(1)	–
Total	4	58	(4)	(39)

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for the financial year ended 31 March 2014
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Note 35

Fair values of financial assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair values of the instruments. The range of values represent the highest and lowest of inputs used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Maximum value
					As at 31 Mar 2014	
Equity and equity linked products	**843**	**1**	Discounted cash flows	Discount rate	6.8%	25.0%
			Pricing model	Earnings multiple	0.4X	8.45X
Total	**843**	**1**				

Inputs for unlisted equity securities

Unlisted equity instruments are generally valued based on earning multiples of comparable companies. Significant unobservable inputs may include earnings before interest, taxes, depreciation and amortisation (EBITDA) multiples, discount rates, and forecast earnings of the investee companies.

Note 36

Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the balance sheet when they meet the criteria described in Note 1(xxi). The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not qualify for offsetting in the balance sheet. The tables exclude amounts not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the entity, refer to note 34.1 for information on credit risk management.

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts $m	Amounts offset [1] $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						2014
Receivables from financial institutions[1]	**1,530**	**–**	**1,530**	**(16)**	**(1,507)**	**7**
Derivative financial assets	**167**	**(23)**	**144**	**(103)**	**(14)**	**27**
Due from related body corporate entities	**17,186**	**(12,078)**	**5,108**	**–**	**–**	**5,108**
Total assets	**18,883**	**(12,101)**	**6,782**	**(119)**	**(1,521)**	**5,142**
Derivative financial liabilities	**(164)**	**23**	**(141)**	**103**	**16**	**(22)**
Payables to financial institutions[2]	**(1,318)**	**–**	**(1,318)**	**16**	**1,273**	**(29)**
Due from related body corporate entities	**(22,556)**	**12,078**	**(10,478)**	**–**	**–**	**(10,478)**
Total liabilities	**(24,038)**	**12,101**	**(11,937)**	**119**	**1,289**	**(10,529)**

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Notes to the financial statements
for the financial year ended 31 March 2014
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Note 36

Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts $m	Amounts offset[(1)] $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						2013
Receivables from financial institutions[(1)]	561	–	561	(28)	(506)	27
Derivative financial assets	112	(13)	99	(76)	(6)	17
Due from related body corporate entities	14,914	(11,063)	3,851	–	–	3,851
Total assets	**15,587**	**(11,076)**	**4,511**	**(104)**	**(512)**	**3,895**
Derivative financial liabilities	(116)	13	(103)	76	16	(11)
Payables to financial institutions[(2)]	(242)	–	(242)	28	213	(1)
Due from related body corporate entities	(18,805)	11063	(7,742)	–	–	(7,742)
Total liabilities	**(19,163)**	**11,076**	**(8,087)**	**104**	**229**	**(7,754)**

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in note 1 (xxi) "Offsetting financial instruments" and are limited to the gross carrying values of the financial instruments. Therefore, when an asset is offset by a liability and the asset carrying value exceeds the liability carrying value, then the net amount presented for the asset will be the difference, and for the liability will be nil.

Amounts covered by master netting arrangements

Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre determined events, such that their potential effect on the Consolidated Entity's and Company's financial position in that circumstance is to settle as one arrangement.

'Other recognised financial instruments' discloses other financial instruments recognised on balance sheet and 'Cash and other financial collateral' discloses amounts received or pledged in relation to the gross amounts of assets and liabilities. Both are subject to enforceable netting arrangements but are not offset due to the rights of set off applying only upon default or other predetermined events. This excludes non-financial instrument collateral.

The amounts subject to enforceable netting arrangements but not set off on the balance sheet have been limited to the net amount presented on the balance sheet so as not to include effects of over-collateralisation.

Note 37

Transfer of financial assets

Transferred financial assets that are derecognised

The Consolidated Entity may enter into transactions in the normal course of business that transfer financial assets to other entities. When the financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees or certain derivatives. There were no material transfers of financial assets where the Consolidated Entity retained continuing involvement.

Transferred financial assets that are not derecognised

When financial assets are transferred but not derecognised, this is due to retaining exposure to substantially all the risks and rewards of ownership of the transferred assets through repurchase and securities lending agreements or asset swaps.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the required collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal right to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 37

Transfers of financial assets continued

The following table presents information about transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2014 and 31 March 2013:

	Repurchase and securities lending agreements $m	Asset swaps $m
		2014
Carrying amount of transferred assets[(1)]	**315**	**107**
Carrying amount of associated liabilities	**(224)**	**(107)**
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred assets	**–**	**104**
Fair value of associated liabilities	**–**	**(104)**
Net fair value	**–**	**–**
		2013
Carrying amount of transferred assets[(1)]	209	102
Carrying amount of associated liabilities	(131)	(102)
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred assets	–	102
Fair value of associated liabilities	–	(102)
Net fair value	–	–

(1) The transferred financial assets are presented in Trading portfolio assets $315 (2013: $209 million) and Loan assets held at amortised cost $107 (2013: $102 million) in the statement of financial position.

Note 38

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Company and Consolidated Entity, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

	2014 $'000	2013 $'000
PwC - Australia		
Audit and review of financial reports of the Company or any entity in the Consolidated Entity	**2,330**	2,145
Other audit-related work	**206**	64
Other assurance services	**355**	1,144
Total audit and other assurance services	**2,891**	3,353
Other advisory services	**92**	13
Taxation	**161**	300
Total remuneration paid to PwC Australia	**3,144**	3,666
Network firms of PwC Australia		
Audit and review of financial reports of the Company or any entity in the Consolidated Entity	**4,043**	4,263
Other audit-related work	**66**	182
Other assurance services	**115**	142
Total audit and other assurance services	**4,224**	4,587
Other advisory services	**–**	–
Taxation	**834**	673
Total remuneration paid to network firms of PwC Australia	**5,058**	5,260
Total remuneration paid to PwC (Note 2)	**8,202**	8,926

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 2014
continued

Note 39
Acquisitions and disposals of subsidiaries and businesses

Significant entities and businesses acquired or consolidated due to acquisition of control:
There were no significant entities or businesses acquired or consolidated due to acquisition of control during the financial year.

Other entities acquired or consolidated due to acquisition of control during the financial year are as follows:
Sequoia PV 1 LLC, Sequoia PV 2 LLC, Sequoia PV 3 LLC, Macquarie Renaissance Corporate Finance Holdings Limited

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

	2014 $m	2013 $m
Fair value of net assets acquired		
Cash and other assets	4	51
Other financial assets	–	41
Goodwill and other intangible assets	–	6
Property, plant and equipment	–	12
Payables, provisions, borrowings and other liabilities	–	(68)
Total fair value of net assets acquired	4	42
Consideration		
Cash consideration	4	42
Total consideration	4	42
Net cash flow		
Cash consideration	(4)	(42)
Less:		
Cash and cash equivalents acquired	–	16
Net cash outflow	(4)	(26)

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

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

The 31 March 2013 comparatives principally relate to Macquarie European Rail, being the significant entity and businesses acquired or consolidated due to acquisition of control.

Note 39

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 disposed of or deconsolidated during the period are as follows:

Aviation Technical Services Inc., Poseidon Infrastructure InvestCo LP BVBA, Rossignol Ski Company, Tulare PV I LLC, Tulare PV II LLC, Sequoia PV 1 LLC, Sequoia PV 2 LLC, Sequoia PV 3 LLC, Macquarie Hyperion Limited and Taikansan Kaihatsu Limited .

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

	2014 $m	2013 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash and other assets	**274**	29
Other financial assets	**169**	2
Goodwill and other intangible assets	**32**	44
Property, plant and equipment	**97**	23
Payables, provisions, borrowings and other liabilities	**(366)**	(89)
Non controlling interest	**(43)**	–
Total carrying value of assets and liabilities disposed of or deconsolidated	**163**	9
Consideration		
Cash consideration	**137**	–
Total consideration	**137**	–
Net cash flow		
Cash consideration	**137**	–
Less:		
Investment retained	**36**	–
Cash and cash equivalents disposed of or deconsolidated	**(18)**	(8)
Net cash (outflow)/inflow	**155**	(8)

There were no significant entities or businesses disposed of or deconsolidated due to loss of control in the year ended 31 March 2013 comparatives.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 40
Company financial information

	2014 $m	2013 $m
Statement of financial position		
Assets		
Current assets	**8,006**	6,029
Non-current assets	**6,025**	6,370
Total assets	**14,031**	12,399
Liabilities		
Current liabilities	**5,177**	3,423
Non-current liabilities	**7,260**	6,673
Total liabilities	**12,437**	10,096
Equity		
Contributed equity	**14,059**	15,046
Foreign currency translation reserve	**3**	(2)
Accumulated losses	**(12,468)**	(12,741)
Total equity	**1,594**	2,303

	2014 $m	2013 $m
Statement of comprehensive income		
Profit/ (Loss) after income tax for the financial year	**992**	(280)
Total comprehensive income/ (expense) for the financial year	**997**	(280)

Contingent liabilities

The following details of contingent liabilities exclude derivatives.

	2014 $m	2013 $m
Contingent liabilities exist in respect of:		
Guarantees[1]	**1,141**	2,224
Indemnities	**–**	18
Letters of Credit	**35**	10
Total contingent liabilities[2]	**1,176**	2,252

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

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

- Texas Municipal Gas Acquisition and Supply Corporation III
- Energia del Norte Holding S.A.P.I de C.V. and Cefiro Capital S.A.P.I de C.V. SOFOM E.N.R

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

Directors declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 5 to 85 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 Consolidated Entity's financial position as at 31 March 2014 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Consolidated Entity 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 10.

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.

Robert Upfold
Director

Sydney
4 June 2014

Independent auditor's report

To the members of Macquarie Financial Holdings Limited

pwc

Report on the financial report

We have audited the accompanying financial report of Macquarie Financial Holdings Limited (the Company), which comprises the statement of financial position as at 31 March 2014, the income statement, the statement of comprehensive income, the statement of changes in equity and the 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 Macquarie Financial Holdings Limited (the Consolidated Entity). The Consolidated Entity comprises the Company and the entities it controlled at 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* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the consolidated 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.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Macquarie Financial Holdings Limited is in accordance with the *Corporations Act 2001,* including:
   (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2014 and of its 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*.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
4 June 2014

Liability is limited by scheme approved under Professional Standards Legislation.