

MACQUARIE GROUP
2010 ANNUAL REPORT



MACQUARIE

Corporate Governance

Macquarie's approach to Corporate Governance

Macquarie's approach to corporate governance aims to achieve superior and sustainable financial performance and long-term prosperity while meeting stakeholders' expectations of sound corporate governance.

Macquarie's corporate governance framework has been developed to support Macquarie's client focused business operations while providing clear guidance on how authority is exercised within Macquarie, including Board oversight of key controls. The Board, with the assistance of the Board Corporate Governance, Audit and Compliance, Remuneration and Risk Committees, determines the most appropriate corporate governance practices.

Macquarie Group Limited is listed on the Australian Securities Exchange (ASX) and is regulated by the Australian prudential regulator, APRA, as a non-operating holding company of a licensed Australian Bank, Macquarie Bank Limited. Macquarie is also supervised by the Australian corporate regulator, ASIC. A number of Macquarie's key operating subsidiaries are supervised by regulators in the overseas jurisdictions in which they operate.

Members of the Board and staff are responsible for upholding the goals and values to which Macquarie aspires: *Integrity, Client commitment, Strive for profitability, Fulfilment for our people, Teamwork and Highest standards*. Adherence to Macquarie's Goals and Values is a relevant factor in assessing individual performance.

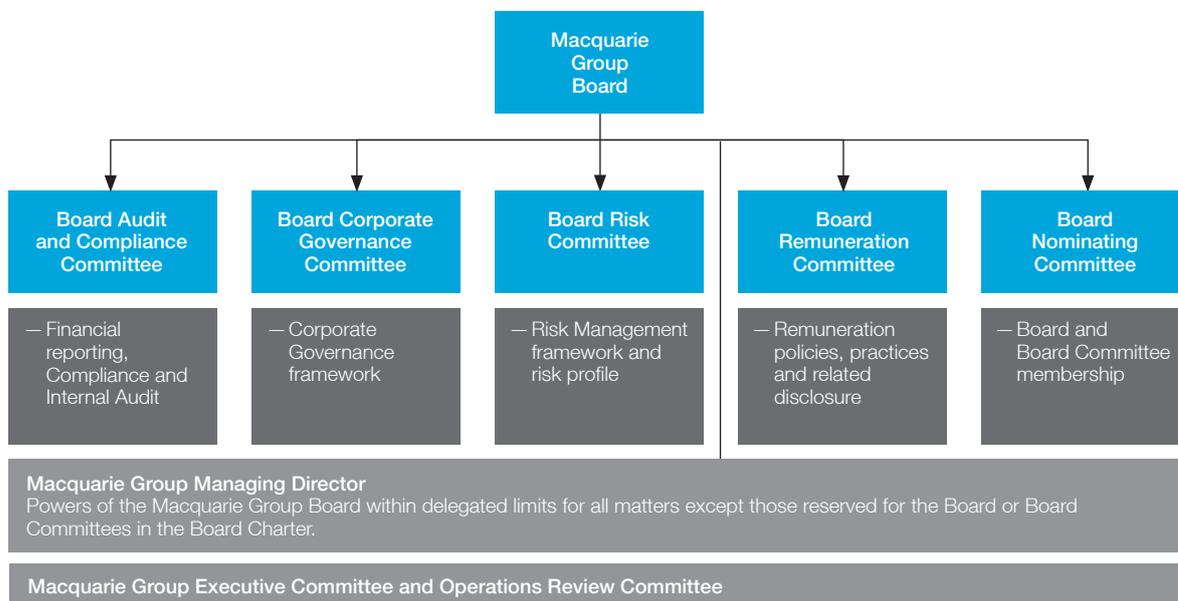
While Macquarie's Board and Board Committee structure has remained largely unchanged for a number of years, Board delegations and Board/Committee charters are regularly reviewed. Macquarie's approach to risk management and remuneration has also been consistent over time.

Macquarie monitors regulatory and corporate governance developments that impact on Macquarie's businesses, adopting corporate governance practices it considers are in the best interests of Macquarie and its shareholders, consistent with Macquarie's responsibilities to other stakeholders including clients, investors and staff. Macquarie considers that its governance practices are consistent with all but one of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations as set out below under the description of the role of the Chairman. A summary of the ASX Principles and Recommendations and reference to the applicable Macquarie governance practice is available on Macquarie's website at macquarie.com.au

Key developments during the year included changes to the delivery mechanism and retention and release conditions of Macquarie's deferred remuneration arrangements. In particular, the Macquarie Group Employee Retained Equity Plan was approved by shareholders at a General Meeting in December 2009.

The following is a description of the corporate governance framework and associated practices in place during the year to 31 March 2010.

Corporate Governance framework



Board oversight and management

The current composition of the Macquarie Board, as at the date of this report, is set out in the table below. Details of each Director's experience is summarised in Schedule 1 of the Directors' Report. Macquarie's Constitution includes requirements concerning board size, meetings, election of directors and powers and duties of directors. As at 31 March 2010, the Board had nine Directors. [A copy of the Constitution is available on Macquarie's website.](#)

The Board has reserved certain matters for its approval and has delegated specific authorities to its various Board Committees. The Managing Director has been granted general authority for those matters not reserved for the Board or Board Committees. Macquarie's Executive and Operations Review Committees operate as management committees pursuant to the Managing Director's delegated authority. Details of the Board's relationship with management and its role and responsibilities are contained within [the Board's Charter](#) which is [available on Macquarie's website.](#)

Macquarie has adopted a number of practices to regulate the division of responsibilities between the Board and management, including:

- having a majority of independent directors on the Board
- the separation of the roles of chairman and chief executive officer
- having, at least annually, the Non-Executive Directors meet in the absence of management
- that the number of Non-Executive Directors present at a meeting must be greater than the number of Executive Voting Directors

- that the Board Risk, Remuneration, Audit and Compliance, and Corporate Governance Committees be chaired by Independent Directors
- providing Directors with the ability to seek independent professional advice for company related matters.

Chairman

David Clarke is the Non-Executive Chairman of Macquarie Group. He sought and was granted leave from 27 November 2008 to 30 August 2009 due to illness. Kevin McCann, the Board's Lead Independent Director, served as Acting Chairman during this time.

Given Mr Clarke's role as Executive Chairman of Macquarie Bank from its formation until 31 March 2007, he is not considered to be an Independent Director.

APRA's Governance Standard, *APS 510 Corporate Governance*, requires that regulated entities have an independent chairman. Notwithstanding this requirement, APRA has confirmed that it will allow Mr Clarke to continue as Chairman. The ASX Recommendations also include a recommendation that the Chairman be independent. The Board believes that Mr Clarke is the most appropriate Director to be Macquarie's Chairman because of his relevant financial and industry experience, record of leadership and deep understanding of Macquarie's operations which are diverse and highly specialised. The Board has appointed a Lead Independent Director to act as a conduit to the Chairman for issues that the Independent Directors have as a group.

Director	Board Membership	Date of Appointment
David Clarke AO	Non-Executive Chairman	August 2007
Nicholas Moore	Executive	February 2008
Michael Hawker	Independent	March 2010
Peter Kirby	Independent	August 2007
Catherine Livingstone AO	Independent	August 2007
Kevin McCann AM	Independent	August 2007
John Niland AC	Independent	August 2007
Helen Nugent AO	Independent	August 2007
Peter Warne	Independent	August 2007

Corporate Governance

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Lead Independent Director

Kevin McCann, as the Lead Independent Director, chairs meetings of the Independent Directors as a group and provides feedback to the Chairman on any issues raised by them.

Independent Directors

Macquarie recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role including monitoring the performance of senior management. Seven of the Macquarie Board's nine members are independent directors.

The independence of directors is determined annually by the Board Corporate Governance Committee (BCGC). Based on Macquarie's criteria for assessing director independence, each Independent Director is asked to confirm whether they have any interests or relationships that may impact either on their ability to act in the best interests of Macquarie or independently of management. In March 2010, each Independent Director confirmed their independence and agreed to inform the Board should they believe that their status may have changed.

Mr Warne noted that he is Chairman of ALE Property Group (ALE) and a Non-Executive Director of ASX Limited. During the year ALE paid Macquarie fees that exceeded five per cent of ALE's total operating costs which is not a material amount of Macquarie's operating revenue. Mr Warne did not take part in any decisions to appoint Macquarie in relation to banking services and corporate advice provided by Macquarie to ALE. Macquarie also undertakes significant trading activity through the ASX on behalf of its clients resulting in amounts paid by Macquarie to the ASX that vary from month to month. The BCGC has determined that fees paid by ALE to Macquarie during the year and by Macquarie to the ASX as a consequence of its trading activity do not materially interfere with the exercise of Mr Warne's independent judgement.

At its meeting in March 2010, the BCGC determined that Helen Nugent, Catherine Livingstone, Kevin McCann, Peter Kirby, Peter Warne and John Niland continued to be Independent Directors. On appointment, Michael Hawker confirmed that he was independent in accordance with Macquarie's director independence criteria.

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

[The criteria used to assess independence, including materiality thresholds, are reviewed annually and are available on Macquarie's website.](#)

Board performance

The Board reviews its performance and the performance of each director on an annual basis. The process for conducting the review is agreed by the Board and typically includes individual interviews by the Chairman with each director and the use of a questionnaire to cover matters such as:

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

The Lead Independent Director provides feedback to the Chairman on matters listed above based on a meeting with other Independent Directors.

A written report summarising the results, issues for discussion and recommendations is presented to the Board and discussed at a Board meeting. Regular Board education sessions are held during the year in response to business awareness needs, as identified by the Non-Executive Directors.

The Board appointed an external consultant to conduct its review in 2009. A written report, including outcomes of the review, issues for discussion and recommendations, was presented to the Board and considered at a Board meeting in May 2009. In 2010, the Board's review is being undertaken internally following the process described above.

Each Board Committee also undertakes a periodic review of its performance at least biennially. The process for the review also includes use of a questionnaire and discussion of the outcomes, including recommendations, led by the Chairman of the Board Committee.

During the year four Board Committees undertook an evaluation of their performance, with the Board Risk Committee's review being part of the annual Board review process.

[A summary of the processes adopted by Macquarie for Board and Key Executive Performance Review is available on Macquarie's website.](#)

Performance of key executives

Formal processes, summarised below, have been adopted by Macquarie to review the performance of Macquarie's most senior executives. As part of the review, the Non-Executive Directors meet as a group to approve the remuneration of the Managing Director and Executive Committee members.

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

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

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

A performance evaluation for senior executives has taken place during the year in accordance with the process described above. Further detail on the remuneration policy for Key Executives is found in the Remuneration Report in the Macquarie Group 2010 Annual Report.

Board Committees

The Board has delegated specific authorities to its five standing Board Committees to assist it with the execution of its responsibilities. All Board members are sent Board Committee meeting agendas and may attend Board Committee meetings. Subsequent to each Board Committee meeting, the minutes are included in the Board papers and the Board Committee Chairman reports to the Board.

[Board Committee Charters set out the duties, responsibilities and membership requirements of each Committee and are available on Macquarie's website.](#)

The current membership of each Board Committee is set out below. Details of each Director's experience is summarised in Schedule 1 of the Directors' Report in the Macquarie Group 2010 Annual Report.

Standing Board Committee Membership	Audit and Compliance	Corporate Governance	Nominating	Remuneration	Risk
Non-Executive (non Independent)					
Director					
David Clarke AO			Chairman	Member	Member
Executive Voting Director					
Nicholas Moore					Member
Independent Directors					
Michael Hawker					Member
Peter Kirby	Member	Member			Member
Catherine Livingstone AO	Chairman		Member		Member
Kevin McCann AM	Member	Chairman			Member
John Niland AC		Member		Member	Member
Helen Nugent AO			Member	Chairman	Member
Peter Warne	Member			Member	Chairman

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For the duration of Mr Clarke's leave of absence, which ended on 30 August 2009, Mr McCann was a member and Acting Chairman of the Board Nominating Committee and a member of the Board Remuneration Committee. Members' attendance at Board and Board Committee meetings is set out at the beginning of the Directors' Report.

Board Nominating Committee and board renewal

The Board Nominating Committee assists the Board in maintaining a board that has an appropriate mix of skills and experience to be an effective decision-making body, contributing to the successful oversight and stewardship of Macquarie. Its members are Non-Executive Directors and the majority are independent. [The Board Nominating Committee Charter, which sets out its responsibilities and how it exercises its authority, is available on Macquarie's website.](#)

The Board recognises the importance of undergoing a regular process of renewal via changes in membership. [Macquarie's Policy on Board Renewal and Appointment of Directors is available on Macquarie's website.](#) The Board has delegated responsibility for identifying candidates for the Board to the Board Nominating Committee which considers succession planning for the Board and the necessary and desirable competencies for a new Board member. The Board Nominating Committee is able to engage external consultants to assist with the selection of new candidates or other independent experts to the extent it considers it necessary to carry out its duties. The Board Nominating Committee is chaired by David Clarke.

New Independent Directors are appointed for terms that will not exceed a maximum of 12 years.¹ In addition to providing an induction program for new Directors, regular Board education sessions are held during the year in response to business awareness needs, as identified by the Non-Executive Directors.

Board Corporate Governance Committee

The Board Corporate Governance Committee (BCGC) assists the Board in adopting the most appropriate corporate governance policies for Macquarie and meeting Macquarie's corporate governance requirements. The Committee is chaired by Lead Independent Director, Kevin McCann, and all Committee members are Independent Directors.

Board Risk Committee

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

All members of the Board are also members of the Board Risk Committee to focus appropriate attention on the oversight of risk. The Committee is chaired by Independent Director, Peter Warne.

Further information on the operation of the Board Risk Committee is provided below under Oversight of risk management.

Board Audit and Compliance Committee

The Board Audit and Compliance Committee (BACC) has responsibility for exercising oversight over compliance of the financial statements with legal requirements and other mandatory professional reporting requirements and advising the Board on these matters. In addition, it is responsible for monitoring compliance with the risk management framework approved by the Board Risk Committee for internal control and compliance matters. In this role, the BACC oversees plans for the activity of the Internal Audit, Compliance, and Credit Assurance functions.

All four members of the BACC are Independent Directors. The Committee is chaired by Catherine Livingstone, a Chartered Accountant with significant and relevant finance and accounting experience. The Chairman of the Board Risk Committee is also a member of the BACC and one member of the Committee, Kevin McCann, has a legal background.

Further information on the role of the BACC is provided below under Financial reporting.

¹ Time served by Independent Directors on the Board of Macquarie Bank prior to the restructure of Macquarie in November 2007, calculated in accordance with transitional provisions that broadly weight past time on the Board prior to August 2002 at 50 percent, will be regarded as time served on the Macquarie Board.

Board Remuneration Committee

The Board Remuneration Committee (BRC) makes recommendations to the Board that promote appropriate remuneration policies and practices for Macquarie. It also has responsibility to liaise with the Board Risk Committee, the BCGC and the BACC in relation to remuneration related disclosures in the financial statements and remuneration report.

The Chairman of the BRC, Helen Nugent, is an Independent Director and a majority of the Committee's members are Independent Directors. The Chairman of the Board Risk Committee is also a member of the BRC.

Further information on the role of the BRC is provided in the Remuneration Report.

Ethical and responsible decision making

Code of Conduct

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

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

[A copy of the Code of Conduct is available on Macquarie's website.](#)

Integrity office

The integrity of an organisation is maintained by the people that work within it. All Macquarie staff are expected to uphold, and are supported in maintaining, the highest standards.

Macquarie established the position of Integrity Officer in 1998. The Integrity Officer acts as an independent point of contact for staff on integrity issues and works to ensure that all Macquarie business is conducted in accordance with sound ethical practices and the Goals and Values of the organisation. The Integrity Officer reports directly to the Chief Executive Officer and provides a report on the activities of the Integrity Office to the BCGC.

[Macquarie's Corporate Citizenship statement is available on Macquarie's website.](#) Further information about the role of the Integrity Officer and activities of the Integrity Office is provided in the Sustainability report in the Macquarie Group 2010 Annual Report.

Dealing with potential conflicts

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

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

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

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

- Board members declaring their interests as required under the *Corporations Act 2001* (Cth) (the Act), ASX Listing Rules and general law requirements;
- Board members with a material personal interest in a matter not receiving the relevant Board paper and not being present at a Board meeting during the consideration of the matter and subsequent vote unless the Board (excluding the relevant Board member) resolves otherwise
- Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board.

Macquarie Bank is a wholly owned subsidiary of Macquarie, and the Macquarie Bank Board is ultimately responsible for the sound and prudent management of Macquarie Bank, with due consideration for the interests of deposit holders.

The Macquarie Bank Board also has processes in place to ensure that decisions made by them are done so at arm's length. Where potential conflicts arise, management will ensure that Directors of the relevant Board have sufficient information to manage conflicts appropriately.

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Staff and Director trading

Macquarie's Personal Dealing Policies apply to Directors and all Macquarie staff. They identify the principles by which Macquarie balances the personal investment interests of staff against Macquarie's responsibility to ensure that the personal dealing and investment activities of its staff in any financial product are conducted appropriately. [A summary of Macquarie's Trading Policy is available on Macquarie's website.](#)

Key aspects of the Policy include:

- **pre-clear securities trading:** Directors, staff and their associates must pre-clear their securities trading with Macquarie
- **trading windows:** Generally, Directors and staff may only trade in Macquarie securities and related derivatives during designated trading windows. These are typically of three to five weeks' duration and follow Macquarie's announcement of its interim and full year profits and after the AGM. Participants in Macquarie's Employee Equity Plans may also be allowed to deal in other designated exercise periods
- **trading prohibition while in possession of material non public price sensitive information:** in all cases Macquarie prohibits Directors and staff from dealing in such investments while they possess material non-public price-sensitive information about Macquarie
- **unvested options, retained shares and minimum shareholding requirements cannot be hedged:** Staff are not permitted to undertake any action that is designed to limit their exposure to Macquarie shares which are subject to retention arrangements, or their unvested Macquarie options. Non-Executive Directors may also not enter into a transaction that operates to limit the economic risk of their Macquarie shareholding below their minimum shareholding requirement
- **net short positions not permitted:** Directors and employees are not permitted to take net short positions in Macquarie Group Limited shares or any securities in Macquarie-managed funds.

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

Sustainability and the community

Macquarie has a robust framework of policies, underpinned by its Goals and Values and Code of Conduct, relevant to environmental, occupational health and safety, diversity, social and governance responsibilities. Macquarie's approach to sustainability is included in the Sustainability report within the Macquarie Group 2010 Annual Report.

Macquarie has committed to becoming carbon neutral by December 2010. Macquarie also invests continually in the development and training of its staff and engages in the wider community through the Macquarie Group Foundation (the Foundation).

In the year to 31 March 2010, the Foundation and Macquarie staff contributed \$A22.5 million to more than 900 community organisations globally.

In addition, there are also a number of Foundation volunteer programs. Through volunteer activities, staff can directly help community organisations and also build sustainability in the not-for-profit sector by transferring their business skills, providing mentor support, serving as board members and giving pro bono advice. The Foundation works closely with its community partners to assess how this volunteer support can be best utilised.

[Details of Macquarie staff community initiatives and organisations supported by the Foundation are available on Macquarie's website.](#)

Financial reporting

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

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

The BACC monitors regulatory compliance as it relates to Macquarie's internal controls and compliance with internal control guidelines and policies including those that have the potential to impact financial reporting processes. During the year the BACC commissioned an external review of the Compliance function within Macquarie.

Auditor independence

The BACC reports to the Board, prior to the approval of the interim and year end financial report, on its monitoring of the independence of the external auditors in accordance with its obligations under the *Corporations Act 2001* (Cth), Macquarie's Auditor Independence Policy and the BACC Charter.

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

[The BACC Charter and an External Auditor Policy Statement contain key aspects of Macquarie's Auditor Independence Policy and external auditor selection process and are available on Macquarie's website.](#)

Chief Executive Officer and Chief Financial Officer declaration

The Macquarie and Macquarie Bank Boards receive written confirmation from the Chief Executive Officer and the Chief Financial Officer that:

- their statement given to the Board on the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- Macquarie's risk management and internal compliance and control system is operating effectively in all material respects.

Macquarie's senior management has reported to the Boards of Macquarie and Macquarie Bank on the effectiveness of the management of material business risks for the year ended 31 March 2010. The Boards have received the Chief Executive Officer and Chief Financial Officer declarations described above for this financial year.

Commitment to shareholders and an informed market

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

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

- factual and reviewed internally before issue
- timely and expressed in a clear and objective manner
- lodged with the ASX as soon as practical and before external disclosure elsewhere.

[An External Communications Policy Summary is available on Macquarie's website.](#)

Corporate Governance

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Shareholder meetings

Macquarie typically holds its AGM in July of each year. Macquarie encourages shareholders to participate in general meetings and aims to choose a date, venue and time considered convenient to the greatest number of its shareholders. This year Macquarie's AGM will be held in Sydney and the Macquarie Bank AGM will be held on the same day, after the Macquarie AGM. Other general meetings may be held as required during the year.

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

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

Online proxy voting is also available to shareholders. Unless specifically stated in a notice of meeting, all holders of fully paid ordinary shares are eligible to vote on all resolutions. Holders of Macquarie Income Securities have the right to attend the Macquarie Bank AGM, at which they have limited voting rights, as set out in the terms of their issue which can be found at macquarie.com.au/au/about_macquarie/investor_information/macquarie_income_securities.htm.

Oversight of risk management

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

[A copy of the Board Risk Committee Charter is available on Macquarie's website.](#)

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

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

Macquarie's approach to risk management is detailed in the [Risk Management Report](#) in the Macquarie Group 2010 Annual Report and [is available on Macquarie's website.](#)

Remuneration

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

[A copy of the Board Remuneration Committee Charter is available on Macquarie's website.](#)

Non-Executive Directors are not granted equity, nor do they receive bonus payments. They do not receive termination payments on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. Details of Macquarie's approach and the amount of remuneration paid to Non-Executive Directors are contained in the Remuneration Report in Macquarie Group's 2010 Annual Report.

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

Corporate Governance in Macquarie-managed funds

The Macquarie-managed funds (Funds) governance standards provide an alignment of interests between the manager and investors in the Funds and adopt an appropriate governance framework to ensure protection of security holder interests.

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

- **Appropriate management of conflicts of interest arising between a Fund and its related parties.**

Related party transactions should be identified clearly, conducted on arms' length terms and tested by reference to whether they meet market standards. Decisions by listed Funds about transactions with Macquarie or its affiliates should be made by parties independent of Macquarie.

- **Appropriate resourcing of funds management businesses.** In particular:

- staff involved in managing a Fund should be dedicated to the relevant funds management business, rather than to advisory or other activities
- all recommendations to Fund boards (and supporting information) should be prepared or reviewed by funds management staff
- each listed Fund that invests in operating assets or businesses should have its own managing director or chief executive officer
- Chinese Walls operate to separate Macquarie's corporate finance, advisory and equity capital markets businesses from its funds management businesses

Macquarie's expertise in managing fund assets and sourcing new value-adding opportunities is a key attraction for investors in Macquarie-managed funds. While Macquarie exercises general oversight of its funds management subsidiaries as set out above, decision-making relating to transactions by Funds are made by the directors of the responsible entities of, and companies within, the Funds.

Risk Management Report

Introduction – Macquarie’s risk management framework

Macquarie Group’s (Macquarie) risk management principles have remained stable over 30 years and have served us well over the course of the global financial crisis.

The key aspects of Macquarie’s risk management approach are:

- **Ownership of risk at the business level -**
Business heads are responsible for identifying risks within their businesses and ensuring that they are managed appropriately. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of Macquarie. Business ownership of risk is an essential element in understanding and controlling risk
- **Understanding worst case outcomes -**
Macquarie’s risk management approach is based on examining the consequences of worst case outcomes and determining whether risks can be tolerated. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, Macquarie’s market risk framework is based primarily on the application of stress tests, rather than statistical models. This approach was tested over the recent past and the shocks observed in the markets were generally within Macquarie’s stress scenarios, resulting in very few worst case loss scenarios being exceeded. Whilst Macquarie operates a number of sophisticated quantitative risk management processes, the foundation of its risk management approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals
- **Requirement for an independent signoff by risk management -** Macquarie places significant importance on having a strong independent Risk Management Group (RMG) which is charged with signing off all material risk acceptance decisions. It is essential RMG has the capability to do this effectively and hence RMG has invested in recruiting skilled professionals, many with previous trading or investment banking experience. For all material proposals, RMG’s opinion is sought at an early stage in the decision making process and independent input from RMG on risk and return is included in the approval document submitted to senior management.

Macquarie’s overall appetite for risk is expressed by setting a Global Risk Limit designed to ensure that in a prolonged and severe downturn, losses will be covered by earnings and surplus capital. In line with this, during the recent global financial crisis, write-downs were more than covered by the earnings generated by Macquarie.

During the past year, Macquarie’s operating groups and divisions took advantage of global growth and transaction opportunities arising from generally improved market conditions. In response to the expansion, RMG increased its staff numbers in relevant offices globally to ensure appropriate resourcing and effective risk oversight. RMG has adapted its risk limits structure to effectively support the evolving business activities. In a year where there has been widespread discussion on regulatory frameworks for financial institutions, RMG has also been responsible for coordinating Macquarie’s evaluation of these developments and its response.

Focus on clients and the long term

Macquarie recognises that an effective risk management framework involves more than just robust controls. Macquarie’s risk culture, which is less tangible, is equally as important and at Macquarie the risk culture remains strong and controls are respected by staff. Key aspects supporting this culture are Macquarie’s focus on clients and the long term.

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

Furthermore, Macquarie’s remuneration policy for senior management encourages a long-term view in decision making. It discourages excessive risk taking as incentives are aligned with the long-term profitability of the firm through retention of remuneration and equity participation.

Risk governance structure

Risk management is sponsored by the Macquarie Group Board (the Board), and is a top priority for senior managers, starting with the Managing Director and Chief Executive Officer. The Head of RMG, as Macquarie's Chief Risk Officer, is a member of Macquarie's Executive Committee and reports directly to the Managing Director and Chief Executive Officer. The Head of RMG has a secondary reporting line to the Board Risk Committee which approves the replacement, appointment, reassignment or dismissal of the Head of RMG.

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

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

- The **Board Audit and Compliance Committee (BACC)** has responsibility for monitoring compliance with the risk management framework approved by the Board Risk Committee for internal control and compliance matters. In this role, the Board Audit and Compliance Committee monitors the effectiveness of the Internal Audit, Compliance and Credit Assurance functions
- The **Board Remuneration Committee** liaises with the Board Risk Committee and the Chief Risk Officer to ensure there is a properly integrated approach to remuneration that appropriately reflects risk
- The **Board Corporate Governance Committee (BCGC)** reviews Macquarie's corporate governance arrangements.

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

Risk Management Group

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

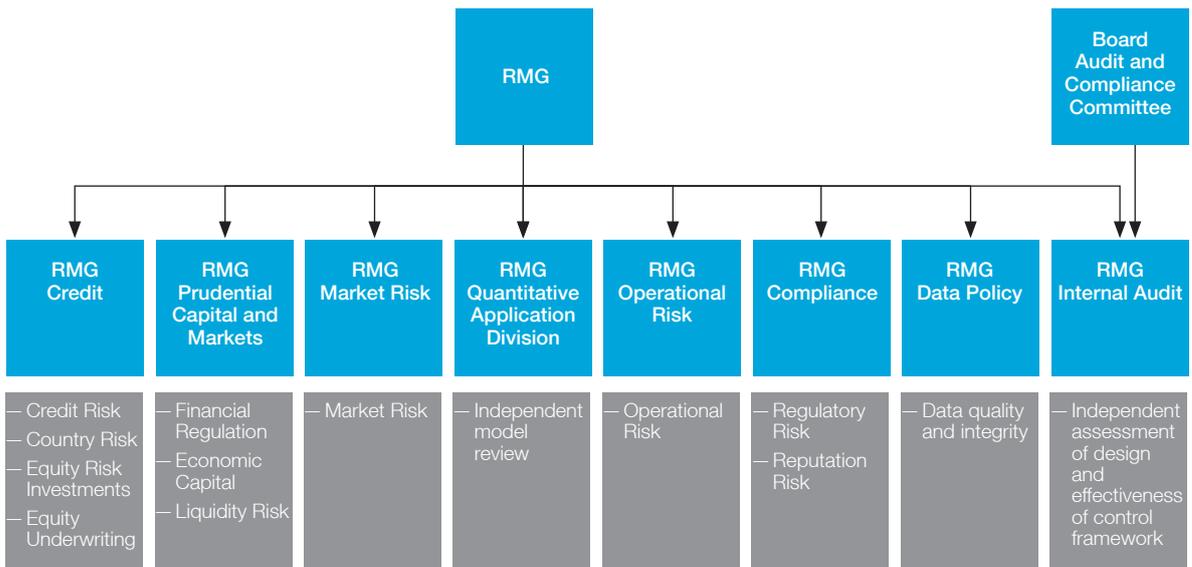
- 1 Independence** – RMG, which is responsible for assessing and monitoring risks across Macquarie, is independent of the operating areas of Macquarie and the Head of RMG, as Macquarie's Chief Risk Officer, reports directly to the Managing Director and Chief Executive Officer with a secondary reporting line to the Board Risk Committee. RMG approval is required for all material risk acceptance decisions
- 2 Centralised prudential management** – RMG's responsibility covers the whole of Macquarie. Therefore, it can assess risks from a Macquarie-wide perspective and provide a consistent approach across all operating areas
- 3 Approval of all new business activities** – Operating areas cannot undertake new businesses or activities, offer new products, or enter new markets without first consulting RMG. RMG reviews and assesses risk and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board
- 4 Continuous assessment** – RMG continually reviews risks to account for changes in market circumstances and developments within Macquarie's operating areas
- 5 Frequent monitoring** – Centralised systems exist to allow RMG to monitor credit and market risks daily. RMG staff liaise closely with operating and support divisions.

Risk Management Report

continued

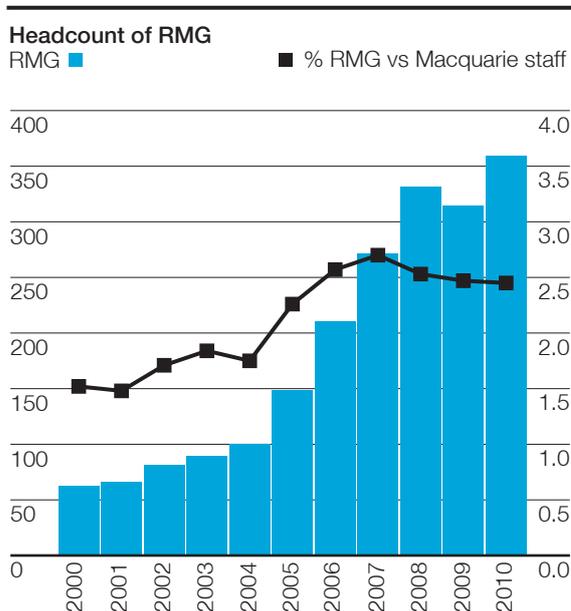
RMG structure and resourcing

While RMG is structured into specialist teams as detailed below, we seek to employ an integrated approach to risk analysis and management across risk classes.



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

Growth in RMG has been consistent with overall Macquarie Group growth in previous years. Over the past year, RMG staff numbers increased by 14 per cent to 359 whilst headcount Macquarie-wide increased by 15 per cent.



Forty one per cent of total RMG staff (as at 31 March 2010) were based outside of Australia to ensure that, on a global basis, risks are managed in a controlled manner. All offices are subject to the same risk management controls and standards. This is supported by regular staff communication and visits between offices.

Consistent with the concept of business units owning risk, specific day-to-day operations are more appropriately discharged and embedded within the business units. The majority of operational risk and compliance functions are discharged within the business units. Divisional compliance staff ensure that day-to-day legal and compliance obligations are discharged at the business level whilst Business Operational Risk Managers (BORMs) are appointed by the Group Heads to be their representative on operational risk management matters, and act as their delegate in ensuring that operational risk is addressed appropriately within their Division. As at 31 March 2010, there were more than 450 staff performing such functions within the business units. RMG provides a risk oversight role in relation to these staff members, ensuring appropriate standards are adhered to. These divisional staff members have functional reporting lines to the RMG divisional heads for Operational Risk and Compliance.

New business and acquisitions

The level of innovation across Macquarie is high. Therefore, it is important that all elements of new business initiatives are well understood before commencement.

All new business initiatives must be signed off by RMG prior to commencement. The new business approval process is a formal process whereby all relevant risks (e.g. market, credit, legal, compliance, taxation, accounting, operational and systems issues) are reviewed, to ensure that the transaction or operation can be managed properly and will not create unknown or unwanted risks for Macquarie in the future. The approval of RMG, Finance Division, Taxation Division and other stakeholders within Macquarie is obtained prior to commencement.

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

The Operational Risk function within RMG oversees the new product and business approval process and ensures the necessary approvals are obtained.

Macquarie undertook a number of acquisitions over the course of the 2010 financial year and the process described above has been applied in each case. While these acquisitions were incremental rather than transformational, Macquarie has a history of being able to successfully integrate major businesses.

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

Risk management and monitoring

The risk management framework incorporates active management and monitoring of market, credit, equity, liquidity, operational, compliance, legal and regulatory risks. It is designed to ensure policies and procedures are in place to manage the risks arising within each business unit. Application varies in detail from one part of Macquarie to another, however, the same risk management framework applies across all business activities without exception.

Equity risk

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

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

Risk Management Report

continued

Equity Risk Limit

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

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

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

Transaction review and approval process

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

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

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

Credit risk

Credit risk is the risk of financial loss as a result of failure by a client or counterparty to meet its contractual obligations. Credit risk arises from both lending and trading activities. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract once the settlement becomes due. In that situation, the credit exposure is a function of the movement of prices over the period of the contract.

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

Analysis and approval of exposures

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

Business units are assigned modest levels of credit discretions. Credit exposures above those levels are assessed independently by RMG and approved by senior Macquarie and RMG staff, the Managing Director and Chief Executive Officer and the Boards as required.

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

All credit exposures are subject to annual review.

Independent analysis

The RMG credit team provides independent analysis of credit risk exposures. The teams work closely with the business units to identify the risks inherent in Macquarie's businesses, and apply analysis appropriate to the level and nature of risks.

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

Macquarie does not rely on quantitative models to assess credit risk but uses fundamental credit analysis to make credit risk acceptance decisions.

Macquarie Group ratings

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

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

All customer limits and exposures are allocated an MG rating on a 1–13 scale which broadly correspond with Standard & Poors (S&P) and Moody's Investor Services (Moody's) credit ratings. Each MG rating is assigned a Probability of Default (PD) estimate. Credit limits and exposures are also allocated a Loss Given Default (LGD) ratio reflecting the estimated economic loss in the event of default occurring.

Macquarie has an independent Credit Assurance function within RMG to provide assurance over the effectiveness of credit risk management throughout Macquarie. The role of the Credit Assurance function is to liaise closely with all business units to ensure credit risks are understood and properly managed, ensure credit discretions are being utilised appropriately and credit ratings are correctly attributed.

Measuring and monitoring exposures

Credit exposures for loans are evaluated as the full face value.

Credit exposures for derivatives are a function of potential market movements and are assessed by assuming that low probability (i.e. worst case) stressed market movements occur and that Macquarie has to go to the market to replace a defaulting deal at the worst possible time during the term of the transaction. The level of stress that is applied to individual markets is reviewed and approved by RMG at least every two years or when volatility or market conditions dictate.

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

All credit exposures are monitored regularly against limits. Credit exposures which fluctuate through time are monitored daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

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

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

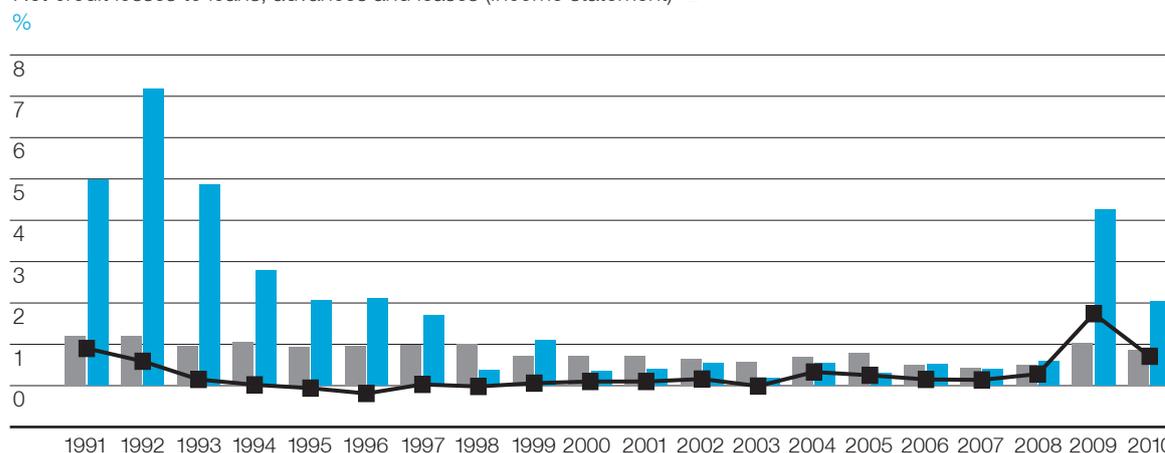
A review of the credit portfolio analysing credit concentrations by counterparty, country, risk type, industry and credit quality is carried out and reported to Macquarie's Executive Committee quarterly and Board semi-annually. Policies are in place to manage credit risk and avoid unacceptable concentrations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

Loan impairment review

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

Ratio of Provisions and Impaired Assets to Loans, Advances and Leases

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



Note: Loan assets excludes securitisations, special purpose vehicles (including mortgage and lease securitisation vehicles) and segregated futures funds. Net impaired assets and net credit losses excludes investment securities. Please refer to note 11 of the Financial Report for further information on impaired assets

Risk Management Report

continued

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

There has been a marked reduction in impaired loans compared to last year's peak. However, this partly reflects the foreclosure of US real estate loans and the consequent strategy to hold and lease US-based residential properties. Improvements have also resulted from strategies which are in place to manage and reduce problem exposures with minimal losses.

Macquarie took advantage of a range of credit opportunities over the past year which has resulted in an increase of 21 per cent in total loan assets.¹

Country risk

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

Operational risk

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

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

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

Operational Risk Management Framework

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

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

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

- a robust change management process to ensure operational risks in new activities or products are identified, addressed and managed prior to implementation
- a semi-annual operational risk self assessment (ORSA) process to identify operational risks at the business level, assess controls and develop action plans to address deficiencies
- recording of operational risk incidents into a centralised reporting system. Incidents are analysed to identify trends and establish lessons learnt on the effectiveness of controls
- allocation of operational risk capital to all Macquarie businesses as a tool to further encourage positive behaviour in Macquarie's day-to-day management of operational risk
- Macquarie-wide policies which require a consistent approach and minimum standards on specific operational risk matters
- embedded operational risk representatives in business units who act as delegates of the business manager. These representatives ensure operational risks are addressed appropriately and that the ORMF is executed within their area.

¹ Excludes securitisations, special purpose vehicles and segregated futures funds.

Macquarie's operational risk capital framework

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

- an annual scenario approach for modelling operational risk losses and to determine operational risk capital
- a quarterly scorecard analysis which is used to update operational risk capital between scenario analyses and as a basis for updating the allocation of capital to businesses.

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

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

Macquarie allocates capital to individual businesses. The capital allocation effectively rewards positive risk behaviour, and penalises increased risks. This is done using scorecards which measure changes in a number of key factors such as the size and complexity of the business, risk and control assessments, incident and exception management and governance.

The quarterly change in the sum of divisional capital is also used as an estimate to update the Macquarie capital requirement between annual assessments.

Market risk

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

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

and to the correlation of market prices and rates within and across markets.

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

Trading market risk

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

Despite historically high volatility of global markets over the course of the downturn, the shocks stipulated in market risk scenarios for price, volatility and business specific risks were typically greater than observed daily movements.

Risk Management Report

continued

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

RMG sets three complementary limit structures:

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

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

Aggregate measures of market risk

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

Macro-Economic-Linkages

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

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

VaR

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

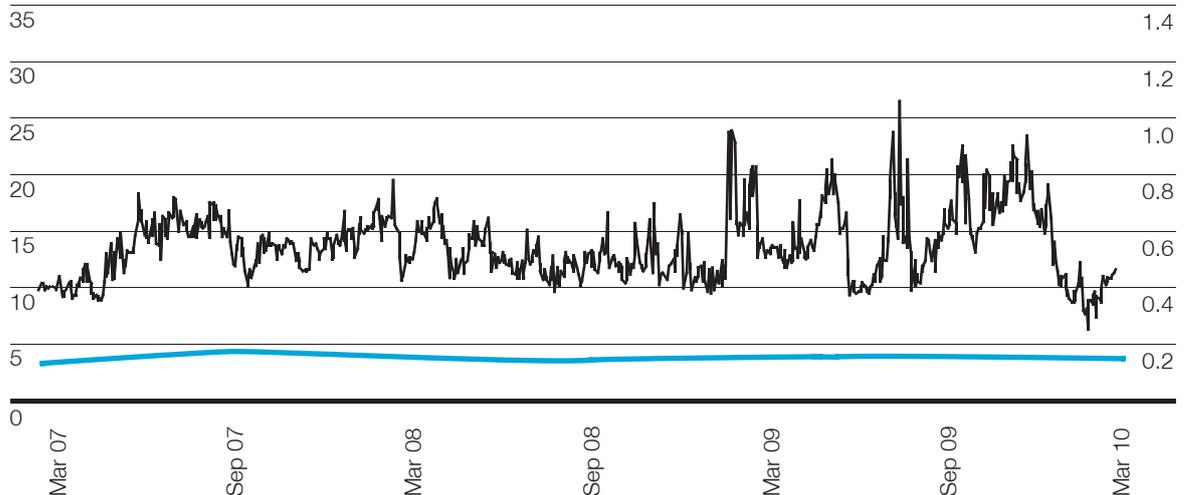
The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 1,400 benchmarks, using volatilities and correlations based on three to ten years of historical data. Emphasis is placed on more recent market movements to more accurately reflect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

As market conditions improved, overall trading activities have increased over the past 12 months. In line with historical trends, market risk, as measured by VaR, has been modest in comparison to capital and earnings and stable as a percentage of capital. The graph below shows the daily VaR and the six month average VaR as a percentage of total equity.

Aggregate Value at Risk

Value at Risk (1-day 99% confidence interval) ■
\$A million

■ Average Value at Risk to Total Equity
%



Risk Management Report

continued

VaR figures for year ended 31 March

	2010 Average \$m	2010 Maximum \$m	2010 Minimum \$m	2009 Average \$m	2009 Maximum \$m	2009 Minimum \$m
Equities	6.66	20.92	2.80	5.79	16.41	3.27
Interest rates	4.34	6.65	3.09	5.25	10.04	2.52
Foreign exchange and bullion	3.59	10.50	0.57	5.00	14.97	1.49
Commodities and energy	10.95	16.98	5.37	9.06	17.04	5.48
Aggregate	14.26	26.70	6.06	13.01	24.17	9.28

Trading revenue

The effectiveness of Macquarie's risk management methodology can be measured by Macquarie's daily trading results. Particularly during periods of high volatility the small quantity and magnitude of daily losses incurred by Macquarie is indicative both of an effective risk management framework and business operations focused on servicing client needs.

Macquarie's market risk trading activities are based on earning income from spreads, franchise businesses and client flows. Trading income is predominantly derived from client franchise activities rather than outright proprietary trading activity.

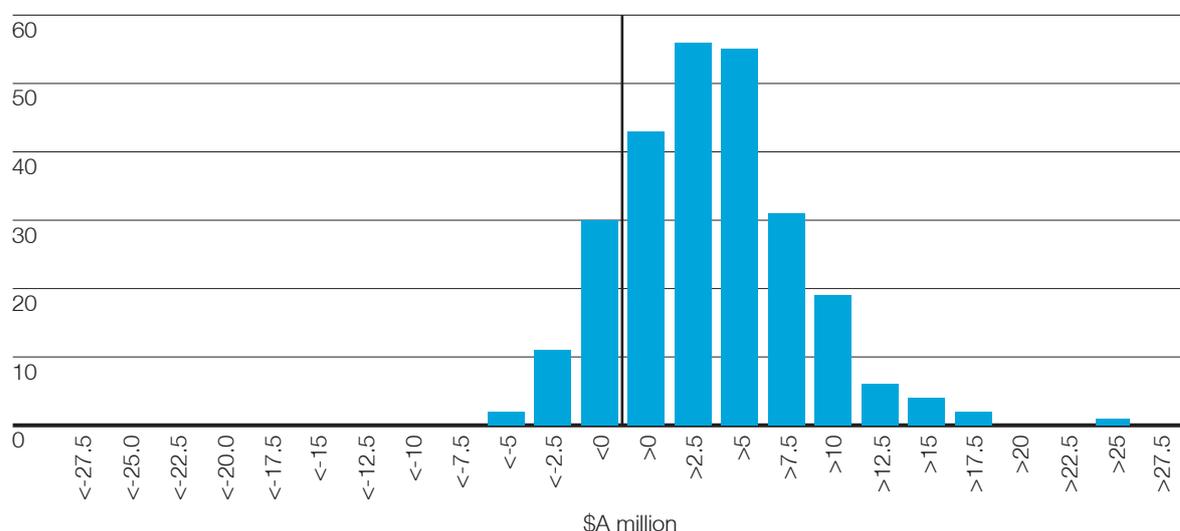
Macquarie's trading approach has shown consistent profits and low volatility in trading results whilst allowing growth in those markets where significant gains can be realised. This is evident in the histogram below which shows that Macquarie made a net trading profit on 217 out of the 260 trading days (2009 results: 200 out of 260 trading days).

Non-trading market risk

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

Daily trading profit and loss

Number of days



Economic capital

Macquarie has developed an economic capital model that is used to quantify Macquarie's aggregate level of risk.

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

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

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

Capital adequacy assessment

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

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

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

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

The ECAM quantifies the following types of risk:

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

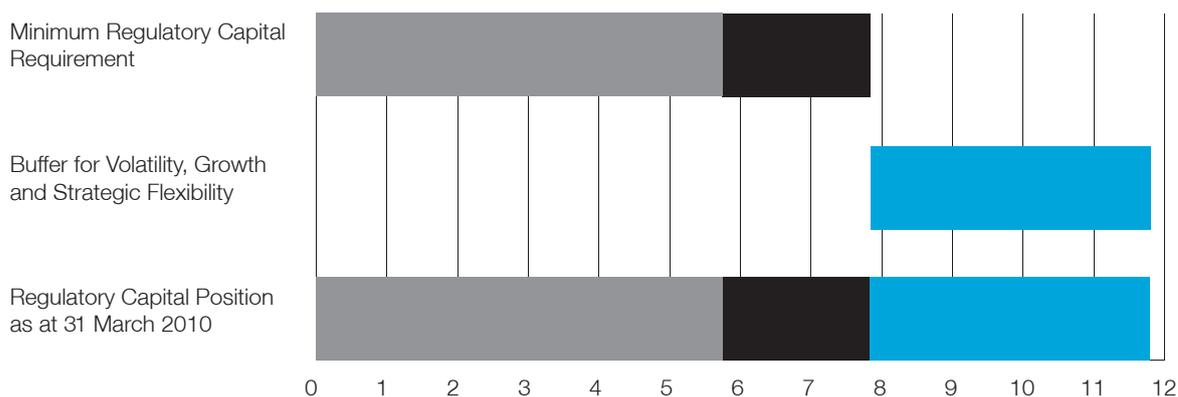
The ECAM also covers insurance underwriting risk, non-traded interest rate risk and the risk on assets held as part of business operations, e.g. fixed assets, goodwill, intangible assets, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures.

The overall regulatory capital requirement of the non-banking entities within Macquarie agreed with APRA is determined by the ECAM, as noted in the preceding table. The regulatory capital adequacy of Macquarie as at 31 March 2010 is set out below.

Regulatory capital position

\$A billion

Banking Group ■ Non-Banking Group ■ Capital Surplus ■



Risk Management Report

continued

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

During the year, the foreign exchange hedging policy was revised to reduce the sensitivity of Macquarie's capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the Foreign Currency Translation Reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

The Tier 1 and total capital ratios for the Banking Group as at 31 March 2010 were 11.5 per cent and 13.3 per cent respectively.

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

Risk appetite setting

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

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

(i) Limits

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

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

(ii) Relevant policies

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

(iii) Requirement to consider risk-adjusted returns

At Macquarie, proposals for all significant new deals, products and businesses must contain an analysis of risk-adjusted returns. These returns are considered together with other relevant factors by RMG, the Executive Committee and Board in assessing these proposals. Achieving an appropriate return for the additional risk that is proposed is a key focus in deciding whether to accept the risk.

The Risk Appetite Test – an aggregate stress test

The key tool that the Board uses to quantify aggregate risk appetite is the Risk Appetite Test. This is a Macquarie-wide stress test in which a severe economic downturn scenario is considered. Potential losses are compared to the Global Risk Limit which comprises the underlying earnings Macquarie is likely to generate in the downturn plus surplus regulatory capital.

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

Aggregate risk is broken down into two categories:

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

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

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

Risk-adjusted performance measurement

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

Liquidity risk

Liquidity management

The two primary external funding vehicles for Macquarie are Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL). MGL provides funding principally to the Non-Banking Group and limited funding to some MBL subsidiaries. MBL provides funding to the Banking Group and provides an intra-group loan to MGL.

The high level funding relationships of Macquarie is shown in the diagram below.

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

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

The Asset and Liability Committee includes the Managing Director and Chief Executive Officer, the Chief Financial Officer, Head of RMG, Treasurer and Operating Group Heads.

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

Liquidity policy and principles

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

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MGL has no short-term wholesale funding.

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

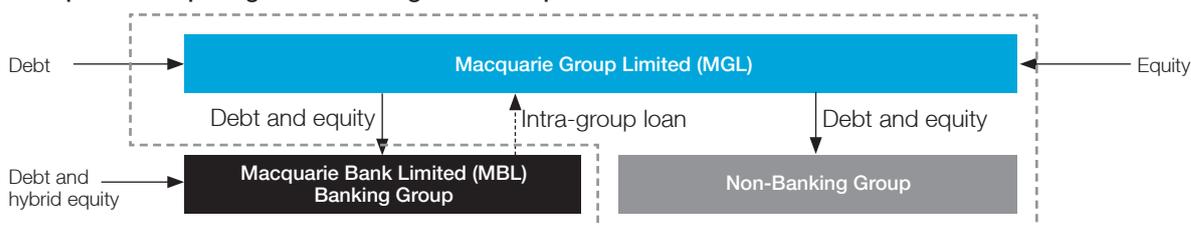
MBL is funded mainly by capital, long-term liabilities and deposits.

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

Liquidity and funding management

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

Macquarie Group - high level funding relationships



Risk Management Report

continued

Liquidity limits

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

Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure MGL and MBL's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modelling includes 12 month liquidity scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes and a range of conservative assumptions are used with regard to access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

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

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

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90 per cent of the liquid assets portfolio held to meet the minimum liquid asset requirement must be repo eligible with a central bank. The remaining 10 per cent must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2010, 98 per cent of the liquid asset portfolio was eligible for repurchase with central banks.

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

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

Liquidity contingency plan

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

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

Funding transfer pricing

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

Legal and compliance risk

Macquarie actively manages legal and compliance risks to its businesses globally. Legal and compliance risks include the risk of breaches of applicable laws and regulatory requirements, actual or perceived breaches of obligations to clients and counterparties, unenforceability of counterparty obligations and the inappropriate documentation of contractual relationships.

RMG assesses compliance risk from a Macquarie-wide perspective and works closely with legal, compliance and prudential teams throughout Macquarie to ensure compliance risks are identified and appropriate standards are applied consistently to manage these compliance risks. The development of new businesses and regulatory changes, domestically and internationally, are key areas of focus within this role.

Each of Macquarie's businesses is responsible for developing and implementing its own legal risk management and compliance procedures. RMG performs an oversight role to the divisional compliance staff to ensure appropriate standards are adhered to. During the course of the year, a Macquarie-wide General Counsel position was created. The appointed General Counsel is responsible for Macquarie's legal functions globally, including oversight of Macquarie's strategic initiatives and significant legal risk and reputation issues. The General Counsel reports directly to the Managing Director and Chief Executive Officer.

Reputation risk

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

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

Business units take ownership of risk, including reputation risk. In addition, a robust, independent risk management framework incorporates active management and monitoring of risks arising within Macquarie. The implementation of this framework by RMG is a major mitigant to reputation risk.

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

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

Internal Audit

Internal Audit provides independent assurance to senior management and the Board on the adequacy and effectiveness of Macquarie's financial and risk management framework. Internal Audit forms an independent and objective assessment as to whether: risks have been adequately identified; adequate internal controls are in place to manage those risks; and those controls are working effectively. Internal Audit is independent of both business management and of the activities it reviews. The Head of Internal Audit is jointly accountable to the BACC and the Head of RMG, has free access at all times to the BACC and cannot be removed or replaced without the approval of the BACC.

Basel II

Macquarie Bank is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk¹ and the internal model approach for interest rate risk in the banking book.

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

Regulatory developments

In response to the recent events of the global financial crisis, regulators worldwide are proposing to enhance their prudential standards. The proposed changes include more stringent qualitative and quantitative requirements to enhance the resilience of financial institutions under stressed market conditions.

The proposed regulatory changes are likely to result in higher capital and tighter liquidity requirements for the banking sector. Macquarie continues to monitor regulatory and other market developments, and remains well capitalised and well funded.

¹ Standard approach applied for specific risk on debt securities

Directors' Report

for the financial year ended 31 March 2010

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited (MGL), the Voting Directors submit herewith the income statements, statements of comprehensive income, statements of changes in equity and the statements of cash flows for the year ended 31 March 2010 and the statements of financial position as at 31 March 2010 of MGL and its subsidiaries (consolidated entity) at the end of, and during, the financial year ended on that date and report as follows:

Voting Directors

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

Non-Executive Voting Director

D.S. Clarke, AO, Chairman¹

Executive Voting Director

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

Independent Voting Directors

M.J. Hawker²
P.M. Kirby
C.B. Livingstone, AO
H.K. McCann, AM³
J.R. Niland, AC
H.M. Nugent, AO
P.H. Warne⁴

Other than Mr Hawker, the Voting Directors listed above each held office as a Voting Director of Macquarie throughout the financial year ended 31 March 2010. Those Voting Directors listed as Independent Directors have been independent throughout the period of their appointment.

Mr L.G. Cox was an Executive Voting Director from the beginning of the financial year until his retirement on 29 July 2009.

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

- ¹ On 31 August 2009, Mr Clarke resumed full duties as Chairman following a leave of absence which commenced on 27 November 2008.
- ² Mr Hawker was appointed to the Board on 22 March 2010.
- ³ Mr McCann was appointed Acting Chairman of MGL, Acting Member and Acting Chairman of the Board Nominating Committee and Acting Member of the Board Remuneration Committee during Mr Clarke's absence (27 November 2008 to 30 August 2009).
- ⁴ Mr Warne was Acting Chairman of the Board Risk Committee from 27 November 2008 and was appointed Chairman of the Board Risk Committee on 27 August 2009.

Voting Directors' meetings

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

Board meetings

	Monthly Board meetings 12		Special Board meetings 7	
	Eligible to attend	Attended	Eligible to attend	Attended
D.S. Clarke ¹	12	7	7	2
N.W. Moore	12	12	7	7
L.G. Cox ²	3	3	4	3
M.J. Hawker ³	1	1	-	-
P.M. Kirby	12	12	7	7
C.B. Livingstone	12	11	7	7
H.K. McCann	12	12	7	7
J.R. Niland	12	12	7	7
H.M. Nugent	12	12	7	7
P.H. Warne	12	12	7	7

Board Committee meetings

	Board Audit and Compliance Committee meetings 8		Board Corporate Governance Committee meetings 5		Board Nominating Committee meetings 4		Board Remuneration Committee meetings 20		Board Risk Committee meetings 4	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
D.S. Clarke ¹	-	-	-	-	4	2	20	10	4	3
N.W. Moore	-	-	-	-	-	-	-	-	4	4
L.G. Cox ²	-	-	-	-	-	-	-	-	1	1
M.J. Hawker ³	-	-	-	-	-	-	-	-	1	1
P.M. Kirby	8	8	5	5	-	-	-	-	4	4
C.B. Livingstone	8	8	-	-	4	4	-	-	4	3
H.K. McCann	8	7	5	5	2	2	9	8	4	4
J.R. Niland	-	-	5	5	-	-	20	20	4	4
H.M. Nugent	-	-	-	-	4	4	20	20	4	4
P.H. Warne	8	8	-	-	-	-	20	19	4	4

¹ Mr Clarke was granted leave of absence from 27 November 2008 to 30 August 2009 due to illness. Since resuming full duties on 31 August 2009, Mr Clarke has attended all Board, Special Board, Board Risk Committee and Board Nominating Committee meetings and nine of ten Board Remuneration Committee meetings.

² Mr Cox retired as an Executive Voting Director on 29 July 2009.

³ Mr Hawker was appointed to the Board as an Independent Voting Director on 22 March 2010.

There were two Board Sub-Committee meetings. The first meeting was attended by all of its members, being Mr McCann, Ms Livingstone and Mr Moore and the second meeting was attended by all of its members, being Mr Clarke, Mr McCann, Ms Livingstone, Dr Nugent, Mr Warne and Mr Moore.

Directors' Report

for the financial year ended 31 March 2010

continued

Principal activities

The principal activity of the Company during the financial year ended 31 March 2010 was to act as a non-operating holding company (NOHC) for the consolidated entity. The activities of the consolidated entity were those of a financial services provider of banking, financial, advisory, investment and funds management services. In the opinion of the Voting Directors, there were no significant changes to the principal activities of the consolidated entity during the financial year under review not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2010 and 31 March 2009, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders for the financial year ended 31 March 2010 was \$1,050 million (2009: \$871 million).

Dividends and distributions

Subsequent to year end, the Directors have announced a final ordinary dividend of \$1.00 per share unfranked, in relation to the financial year ended 31 March 2010. The final ordinary dividend is payable on 2 July 2010.

On 16 December 2009 MGL paid an interim ordinary dividend of \$0.86 per share unfranked (\$287 million in aggregate) in respect of the financial year ended 31 March 2010.

On 3 July 2009 MGL paid the final dividend of \$0.40 per share (\$122 million in aggregate) in respect of the financial year ended 31 March 2009.

The final dividend of \$1.00 per share unfranked brings the total dividends for the year to \$1.86 per share unfranked, and the dividend payout ratio to 60 per cent, consistent with the previously stated policy.

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

State of affairs

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

Review of operations and financial result

Consolidated net profit after income tax attributable to ordinary equity holders for the year ended 31 March 2010 was \$1,050 million, a 21 percent increase from \$871 million in the prior year.

The effective tax rate for the year ended 31 March 2010 was 16%, up from 2% in the prior year. The increase was largely due to a lower level of write-downs and impairment charges in the year to 31 March 2010 compared to the prior year.

The effective tax rate before the impact of write-downs and impairment charges is relatively stable compared to the prior year.

The year ended 31 March 2010 included significant write-downs, impairment charges, net equity accounted losses (\$854 million), negative fair value adjustment on fixed rate issued debt (\$255 million), gains from liability management (Macquarie Income Preferred Securities, \$127 million and subordinated debt, \$55 million) and gains from fund initiatives totalling \$539 million. During the year the consolidated entity acquired Tristone Capital (August 2009), Fox-Pitt Kelton Cochran Caronia Waller (November 2009), Blackmont Capital (December 2009) and Delaware Investments (January 2010).

Earnings per share increased from \$3.10 in the prior year to \$3.20 for the year ended 31 March 2010. The final dividend of \$1.00 per share unfranked, brings the total dividends for the year ended 31 March 2010 to \$1.86 per share unfranked, up from \$1.85 per share in the prior year, and resulted in a full year dividend payout ratio of 60 percent.

In May 2009 the consolidated entity undertook a \$540 million capital raising via an institutional private placement, and in June 2009 completed a \$669 million share purchase plan. These capital initiatives, combined with the increase in profit attributable to ordinary equity holders, resulted in a return on equity for the year ended 31 March 2010 of 10.0 percent, up from 9.9 percent for the prior year.

Total operating income for the year ended 31 March 2010 was \$6,638 million, a 20 percent increase on the prior year's operating income of \$5,526 million. The main drivers of this change were increased operating income from Fixed Income, Currencies and Commodities and the cash equities business in Macquarie Securities Group, combined with an overall reduction in the level of write-downs, impairment charges and net equity accounted losses.

Total operating expenses for the year ended 31 March 2010 were \$5,344 million, an increase of 18 percent from \$4,537 million in the prior year. The change was largely driven by a 31 percent increase in employment costs, which also resulted in an increase to the compensation ratio from 40.7 percent in the prior year to 42.9 percent for the year to 31 March 2010.

Assets under Management (AUM) of \$325.7 billion at 31 March 2010 increased 34 percent from \$243.1 billion at 31 March 2009. The increase was driven by Macquarie Funds Group's acquisition of Delaware Investments, which added \$151.1 billion to assets under management at 31 March 2010. This was offset by a reduction in AUM due to fund initiatives including Macquarie Airports, Macquarie Infrastructure Group and the sale of Real Estate assets to Charter Hall. The strengthening of the Australian dollar against major global currencies resulted in lower asset values for offshore assets.

Review of financial position

The consolidated entity's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained, despite the challenging credit market conditions. Cash and liquid assets decreased from \$30 billion at 31 March 2009 to \$22 billion at 31 March 2010. Cash and liquid asset holdings now represent over 30 per cent of the consolidated entity's net funded assets.

The consolidated entity's capital management policy is to be conservatively capitalised and to maintain diversified funding sources in order to support business initiatives, particularly specialised funds and offshore expansion, whilst maintaining counterparty and client confidence.

As an Australian Prudential Regulation Authority (APRA) authorised and regulated NOHC, Macquarie is required to hold adequate regulatory capital to cover the risks for the whole Macquarie Group, including the Non-Banking Group. APRA is still developing its policy framework for supervising NOHCs. Macquarie and APRA have agreed an interim capital adequacy framework for Macquarie, based on Macquarie Group's Board-approved Economic Capital Adequacy Model and APRA's capital standards for ADIs. This will apply until APRA's capital rules for NOHCs are finalised and implemented.

Macquarie Group's capital adequacy framework requires it to maintain minimum regulatory capital requirements ('Level 3 MCR') calculated as the sum of the dollar value of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of risk weighted assets (RWAs) plus Tier 1 deductions (using prevailing APRA ADI Prudential Standards)
- The Non-ADI Group capital requirement, using Macquarie Group's Economic Capital Adequacy Model adjusted for the capital impact of transactions internal to the Macquarie Group.

The consolidated entity has satisfied its externally imposed capital requirements throughout the year. At 31 March 2010, the Macquarie Banking Group had a Tier 1 Capital Ratio of 11.5 per cent and a Total Capital Ratio of 13.3 per cent. The consolidated entity remains well capitalised with \$4.0 billion of eligible capital in excess of the Level 3 MCR.

Events subsequent to balance date

Following approval by unitholders on 22 April 2010, investments in the Macquarie Cash Management Trust (CMT) will be converted to an at call account with Macquarie Bank. The conversion is scheduled to take place in July 2010. At the current time, total funds under management in the Macquarie CMT are \$10 billion. The funds transferred to the consolidated entity will form part of the consolidated entity's overall funding pool.

At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the financial years subsequent to 31 March 2010 not otherwise disclosed in this report.

Directors' Report

for the financial year ended 31 March 2010

continued

Likely developments in operations and expected outcomes

While market conditions continue to improve, continuing uncertainty makes forecasting difficult.

Subject to market conditions, for the year to 31 March 2011 we currently expect improved operating results on the prior year for all of our businesses.

The income statement for the year to 31 March 2011 is likely to be characterised by fewer one-off items as seen in the second half of this year; a compensation ratio consistent with historical levels, continued higher cost of funding reflecting market conditions and high liquidity levels including the recent CMT/CMA initiative.

The balance sheet in the 31 March 2011 financial year is likely to be characterised by high cash balances as a result of the CMT/CMA initiative, which we anticipate will continue to be deployed across the businesses, and a level of equity investments at or below existing levels.

In addition to market conditions, the result for the year to 31 March 2011 remains subject to a range of other challenges, including: increased competition across all markets; the cost of maintaining our continued conservative approach to funding and capital and proposed regulatory reform which has the potential to impact flows to capital markets.

Over the medium term, we remain well placed due to the global depth and reach of our businesses, the diversification of our business mix, our strong committed team with interests aligned to shareholders, our strong balance sheet, capital and funding position and effective risk management.

Subject to the continuation of increasing economic activity across major markets, we expect continued growth in revenue and earnings across most businesses over time and continued growth in our businesses driven by further expansion of our strong client franchise.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

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Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

Executive summary

Macquarie's approach to remuneration continues to deliver long-term shareholder returns by ensuring continued alignment of the interests of staff and shareholders, while attracting and retaining high quality people. This consistent approach has served shareholders well in recent times, as well as over the longer term. In the difficult financial markets of the past two years, it has also contributed to Macquarie's resilience relative to its peers. The Board believes that this continues to be the right approach.

While its remuneration framework has remained robust despite unprecedented change in financial markets, Macquarie revised some specific aspects of its remuneration arrangements during the year. The changes place an even greater emphasis on longer-term incentives but continue to emphasise performance-based remuneration having regard to risk. The principles that underpin the remuneration framework are the same, with Macquarie's approach measuring up well against recommendations regarding remuneration practices from regulators and governments. The changes, which were overwhelmingly approved by shareholders in December 2009, alter the delivery mechanism and the retention and release conditions of Macquarie's deferred remuneration arrangements. The changes ensure that the key objectives of ongoing retention of staff and alignment between staff and shareholders continue to be met. The changes are as follows:

- less profit share delivered as cash
- more profit share deferred
- more retained profit share held as equity
- options replaced by Performance Share Units (PSU's) with performance hurdles which are awarded only to the most senior people
- retention arrangements strengthened
- more onerous conditions around the release of retained profit share on termination.

With the unprecedented change in financial markets during the past two years, there have been major changes in the industry landscape, with a number of Macquarie's investment banking peers significantly impacted by the global dislocation. This follows from widespread redundancies, major firm collapses and bankruptcies, as well as acquisitions and business divestments with a number of major firms outside Australia relying on government cash injections to survive.

The aftermath of the global financial crisis has seen a rapid strengthening in the market for executive talent in the financial services industry. The perception by many financial institutions of a unique window for recruiting talent, building businesses and increasing market share has resulted in intense competition globally for proven talent, which boards across the industry have also had to take into account.

As in previous downturns, Macquarie has taken advantage of opportunities arising as a result of market disruptions with a number of acquisitions of businesses, teams and individuals during the year.

Despite some increases in fixed remuneration levels for certain senior personnel to reflect the competitive market conditions, levels of fixed remuneration remain relatively low compared to senior roles in other Australian corporations. This is still considered appropriate, encouraging executives to take a more performance-oriented approach. In 2010, fixed remuneration for Macquarie's nine Executive Committee members comprised, on average, only 11 per cent of total remuneration. The remaining 89 per cent of their remuneration was entirely at risk.

Macquarie's **performance-based remuneration** is truly variable and aligned with shareholders' interests, evidenced in the way the profit share pool is created through the use of net profit after tax (NPAT) and return on equity (ROE) measures. For a given level of capital employed, total profit share rises or falls with NPAT. Macquarie's total profit share pool increases with performance and no maximum ceiling is imposed. This aligns shareholder and staff interests and provides the strongest incentive to staff to continuously strive to maximise long-term profitability.

Performance-based profit share is allocated to Macquarie's businesses and, in turn, to individuals based on performance. Performance is primarily assessed based on relative contribution to profits while taking into account capital usage and risk management. This results in businesses and individuals being motivated to increase earnings and to use shareholder funds efficiently, consistent with prudent risk-taking. In addition, other qualitative measures are used in assessing individual performance, such as: how business is done; governance and compliance; long-term sustainability; people leadership and adherence to Macquarie's Goals and Values. Staff are motivated to work co-operatively given that their profit share will reflect Macquarie's overall performance, the relative performance of their business and their individual contribution.

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

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

Under the revised remuneration arrangements, 50 per cent (55 per cent for the Managing Director and Chief Executive Officer) of each Executive Committee members' and Designated Executive Directors'¹ annual gross profit share allocation is retained and vests from years three to seven, subject to restrictions. Retained amounts are fully invested in a combination of Macquarie ordinary shares and notionally in Macquarie-managed fund equity to reflect an individual executive's responsibilities and to strengthen alignment with Macquarie and Macquarie-managed fund securityholders' interests.

Option grants have been suspended and, in the case of the Executive Committee only, replaced by **PSUs**. PSUs vest in three tranches after two, three and four years only if challenging performance hurdles are met.

Macquarie prohibits staff from hedging:

- shares held to satisfy the minimum shareholding requirement
- shares to be delivered under the new equity plan, the Macquarie Group Employee Retained Equity Plan (MEREPE)
- shares held under the Executive Committee Share Acquisition Plan
- unvested options.

Executives are required to conduct trading in Macquarie ordinary shares only during designated trading windows.

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

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

Non-Executive Director fees are set in line with market rates for relevant Australian financial organisations and reflect the time commitment and responsibilities involved within the shareholder approved aggregate limit.

This overall approach to remuneration has contributed to strong shareholder returns over time.

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

Introduction

Macquarie's remuneration strategy is designed to ensure our people are focused on generating outstanding shareholder value over the long term and are rewarded in line with the outcomes they achieve. This broad strategy has been in place since the inception of Macquarie, evolving over time to ensure the system continues to meet its overriding objectives.

The Board of Directors oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Non-Executive Voting Directors. The Board and the Board Remuneration Committee (BRC) annually review the remuneration strategy to ensure the best outcomes are delivered for Macquarie and its shareholders. Following this year's review the Board's view is that:

In the difficult financial markets of the past year, Macquarie's consistent approach to remuneration continues to deliver long-term shareholder returns by ensuring continued alignment with the interests of staff and shareholders while attracting and retaining high quality people. These outcomes have been achieved because:

- 1 Macquarie's remuneration framework has remained robust despite unprecedented change in financial markets
- 2 While the underlying principles remain unchanged, Macquarie's remuneration arrangements have been enhanced to further align staff and shareholders' interests and to remain in line with or ahead of leading practice
- 3 Macquarie's remuneration arrangements are delivering results, although comparisons are more difficult because of the changes
- 4 Strong corporate governance has been exercised and
- 5 Non-Executive Directors continue to be recognised for their role.

These points are discussed in detail in sections one to five of this Remuneration Report.

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

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

- financial information for Macquarie relating to the years ended 31 March 2006, 31 March 2007, 31 March 2008, 31 March 2009 and 31 March 2010 has been presented in accordance with Australian Accounting Standards equivalent to International Financial Reporting Standards (AIFRS)
- financial information for Macquarie relating to the year ended 31 March 2005 has been restated in accordance with AIFRS, with the exception of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005
- financial information for Macquarie relating to earlier periods has not been restated in accordance with AIFRS, and is, therefore, presented in accordance with the Australian Accounting Standards prevailing at the time.

1 Macquarie's remuneration framework has remained robust despite unprecedented change in financial markets

Significant changes in global financial markets resulted in remuneration practices, particularly in the financial services industry, coming under scrutiny from governments and regulators. These changes are still unfolding in jurisdictions around the world. In this context, the Macquarie remuneration approach remains robust.

1.1 Global financial markets have seen unprecedented change

1.1.1 Governments and regulators reviewed remuneration arrangements and the industry landscape has been reshaped following the global financial crisis

2008	2009 – January	2009 – February	2009 - April
<p>JP Morgan Chase acquired Bear Stearns following its collapse, Bank of America acquired Merrill Lynch</p> <p>Lehman Brothers filed for bankruptcy with most of its investment banking and trading businesses sold to Barclays</p> <p>Babcock & Brown placed in voluntary administration</p> <p>Widespread redundancies by global investment banks commence, continuing well into 2009 - many relate to closure of non-core businesses</p>	<p>Many US financial institutions start receiving significant US Treasury cash infusions under Troubled Asset Relief Program (TARP) - including Goldman Sachs, Morgan Stanley, Citigroup and JP Morgan Chase</p> <p>Several major European institutions receive assistance from relevant governments, including Royal Bank of Scotland and UBS</p>	<p>FSA (UK) first regulator to publish a draft Code of Practice (Code) on remuneration policies</p> <p>The Code's overriding General Principle: <i>Firms must establish, implement and maintain remuneration policies, procedures and practices that are consistent with effective risk management</i></p>	<p>Financial Stability Board (FSB) published its principles for sound compensation practices which were endorsed by the G20 leaders. Principles were intended to reduce incentives towards excessive risk taking</p>
2009 – May	2009 – June to August	2009 – October to November	2009 - December
<p>Australian Prudential Regulation Authority (APRA) releases first draft of the revised Prudential Standard APS 510 and accompanying guidance, Prudential Practice Guide PPG 511</p> <p>Australian Government requests Productivity Commission undertake a review into executive remuneration</p> <p>Australian Government puts forward legislation relating to executive termination benefits</p> <p>Australian Government announces changes to the taxation of employee share schemes</p> <p>UK Government commissions examination of corporate governance in the financial services industry</p>	<p>Regulators in other countries including Hong Kong, France and Switzerland release guidelines in line with FSB's principles</p> <p>Final FSA Code on remuneration policies published</p>	<p>Application of FSB principles through the US Federal Reserve Bank</p> <p>Final APRA standards published - implementation date of 1 April 2010</p> <p>Australian Government legislation passed by Parliament, significantly reducing amount of executive termination benefits which can be paid without obtaining shareholder approval, to the equivalent of one year's base salary for relevant executives</p> <p>UK Government examination of corporate governance in the financial services industry published - number of recommendations relate to remuneration and broadly mirror FSA Code</p>	<p>Final Productivity Commission report makes recommendations in relation to governance and accountability of boards regarding remuneration matters</p> <p>Australian Government changes to taxation of employee share schemes enacted in legislation, reducing the concessional tax treatment available for employee share plans</p> <p>US - The Wall Street Reform and Consumer Protection Act - requiring an annual say-on-pay, golden parachutes vote, and new compensation committee requirements</p> <p>UK announced an employer-paid tax of 50 per cent on bankers' bonuses greater than £25,000 paid before 5 April 2010</p>
2010 to date			
<p>April 2010, Australian Government released response to final Productivity Commission report on executive remuneration</p> <p>March 2010, UK Government publishes draft regulations under the Financial Services Bill to apply from the 2010 reporting year, including mandatory disclosure for all executives receiving greater than £500,000, disclosed in bands of £500,000 up to £5 million and thereafter in £1 million bands</p>			

Directors' Report – Remuneration Report for the financial year ended 31 March 2010 continued

Despite the difficult conditions at the beginning of 2009, many financial services firms recovered during the year as reflected in their financial results, increasing their ability to offer more compelling pay packages and their desire to rebuild businesses. Some of the US banks began to repay their TARP cash injections, therefore removing themselves from government restrictions as well as from the public spotlight on compensation. These banks were then able to offer more competitive compensation packages. The perception by many financial institutions of a unique window for recruiting talent, building businesses and increasing market share also placed significant upward pressure on remuneration levels. The recruitment market strengthened, particularly at the top executive end of the market where high performers found several opportunities on offer. This has resulted in **intense competition across the globe for proven talent**. This competition for talent is arguably the most intense witnessed in Macquarie's history.

1.1.2 The composition of remuneration has significantly changed with some major themes emerging

The major themes emerging in the current remuneration environment reflect a greater desire to manage the behaviour between risk and return. These themes are:

- bonuses are based on profits not revenue, and on risk-adjusted capital
- a higher percentage of performance-based remuneration is being deferred
- a higher proportion of deferred performance-based remuneration is being delivered in equity
- options are being used less frequently, being replaced by other forms of equity such as restricted stock
- clawback practices are being implemented
- the fixed remuneration component for risk and finance staff has increased.

Macquarie's old remuneration arrangements reflected these themes, and with the changes approved by shareholders in December 2009, these themes are featured to an even greater extent.

1.1.3 Governance expectations have significantly increased

One of the more significant impacts of the government and regulator-driven change has been the increase in governance expectations for boards and remuneration committees.

The APRA prudential standards require increased scrutiny by boards and remuneration committees, including the requirement that boards approve a company's remuneration policy.

The Federal Government has indicated that it intends to implement many of the Productivity Commission's recommendations, and further strengthen several of the Productivity Commission's proposals by expanding their scope, coverage and enforceability.

With the significant reduction in executive termination benefits which can be paid without obtaining shareholder approval, boards will likely become more mindful of the termination benefits restrictions that impose criminal sanctions on directors and officers who receive termination benefits in contravention of the restrictions as well as the company that provides the benefit and the company officers involved.

1.2 Macquarie's underlying remuneration framework remains robust

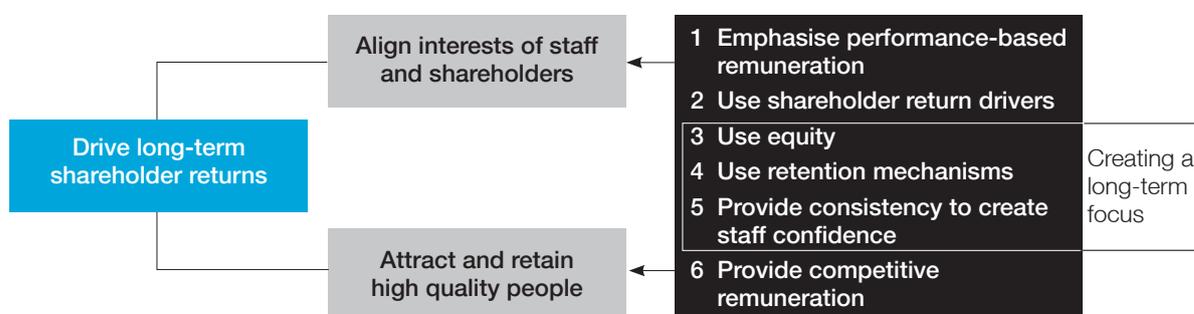
In the difficult financial markets of the past year, Macquarie's underlying remuneration framework has remained robust and has contributed to Macquarie's resilience relative to peers. It has also contributed to Macquarie's long-term success in growing earnings. That approach, and its consistency over time, has served shareholders well during recent times, as well as over the longer term. The Board believes that this continues to be the right approach.

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

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

- emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk (refer section 2.1)
- linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (refer section 2.2)
- using equity to create alignment with shareholder interests (refer section 2.3)
- designing retention mechanisms to encourage a long-term perspective and hence alignment with shareholders (refer section 2.3.2 to 2.3.7)
- using broadly consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded (refer section 2.3)
- ensuring arrangements are competitive on a global basis with Macquarie's international peers (refer discussion in section 1.1.1 in regards to the competitive environment).

Key elements of the remuneration framework



The next section of the Remuneration Report discusses how Macquarie enhanced its remuneration arrangements to further align staff and shareholder interests.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

2 While Macquarie's underlying principles remain unchanged, its remuneration arrangements have been enhanced to further align staff and shareholders interests and to continue to be in line with or ahead of leading practice

Changes to Macquarie's remuneration arrangements were approved by shareholders in December 2009.

Whilst the remuneration approach is robust, to ensure ongoing long-term alignment with shareholders and staff retention, Macquarie announced proposed changes to its remuneration arrangements on 31 March 2009. The changes also reflected global remuneration and regulatory trends. Further details of the March proposal were announced on 1 May 2009, with a view to seeking shareholder approval at the 2009 Annual General Meeting (2009 AGM). The Board subsequently deferred the proposals following foreshadowed legislative changes announced by the Australian Government. While the legislation was not yet finalised, in the interests of reducing uncertainty for shareholders and staff, Macquarie considered that adequate clarity existed to progress its proposals, and announced modifications to its March 2009 proposals on 31 October 2009. Macquarie sought and obtained shareholder approval at a General Meeting on 17 December 2009. Shareholders voted 96.3 per cent in favour of the relevant resolution.

The revised remuneration arrangements took effect from the 2009 financial year and are as follows:

- less profit share is delivered as cash
- more profit share is being deferred
- more deferred profit share is held as equity
- options have been replaced by Performance Share Units (PSUs) and awarded to the most senior people only
- retention arrangements have been strengthened
- more onerous conditions have been introduced around the release of retained profit share on termination.

Full details of Macquarie's remuneration arrangements are set out in the remainder of this section.

The following table shows how Macquarie's remuneration arrangements relate to the remuneration principles referred to on the previous page.

Link between the remuneration principles and the remuneration arrangements

Principle	Features of the remuneration system
<p>1 There is an emphasis on performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk (Refer discussion in section 2.1)</p>	<ul style="list-style-type: none"> — Profit share allocations are highly variable — Performance-based remuneration can comprise a high proportion of total remuneration in the case of superior performance (approximately 94 per cent in the case of the Managing Director and Chief Executive Officer) — Profit share allocations and PSU grants for Executive Committee members provide substantial incentives for superior performance but low or no participation for less satisfactory performance — The CRO advises the BRC on risk management issues — The CRO and CFO advise the BRC on the risk input into the determination of the profit share pool, such as the cost of equity capital to be used in the profit share pool calculation
<p>2 Rewards are linked to sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (Refer discussion in section 2.2)</p>	<ul style="list-style-type: none"> — The overall profit share pool is determined annually by reference to Macquarie's after-tax profits and its earnings over and above the estimated cost of capital — The allocation of the pool to individual businesses, and in turn to individuals, is based primarily, but not exclusively, on relative contribution to profits, taking into account capital usage and other factors including specific risk factors. Performance looks at a range of factors including risk management, governance and compliance, people leadership and upholding Macquarie's <i>Goals and Values</i> — Earnings per share and ROE are used as performance hurdles for Executive Committee PSUs — ROE is used as the performance hurdle for Executive Director options granted under the old remuneration arrangements

Principle	Features of the remuneration system
<p>3 Equity is used to provide rewards to create alignment with shareholder interests</p> <p>(Refer discussion in section 2.3)</p>	<ul style="list-style-type: none"> – For Executive Directors, retained profit share is invested in a combination of Macquarie shares and notionally in Macquarie-managed fund equity. The investment mix varies depending on an individual's role – For other staff, retained profit share is invested in Macquarie shares – PSU grants with performance hurdles are granted to Executive Committee members – Grants of Macquarie shares may be made to staff being hired or promoted – Executive Directors are required to acquire and hold a minimum number of shares calculated based on their profit share. This is satisfied through the new equity arrangements – Staff share plans are available to encourage broader staff equity participation
<p>4 Retention mechanisms encourage a long-term perspective and hence alignment with shareholders</p> <p>(Refer discussion in section 2.3.2 to 2.3.7)</p>	<ul style="list-style-type: none"> – For Executive Committee members and Designated Executive Directors, 50 per cent (55 per cent for Managing Director and Chief Executive Officer) of annual profit share is retained, and vests and is released from years three to seven – For other Executive Directors, 50 per cent of 2009 annual profit share is retained, and vests and is released from years three to seven. From 2010, 40 per cent is retained, and vests and is released from years three to five – Time based vesting rules with hurdles apply to Executive Committee PSUs
<p>5 Arrangements provide consistency over time to ensure staff have the confidence that efforts over multiple years will be rewarded</p> <p>(Refer discussion in section 2.3)</p>	<ul style="list-style-type: none"> – Macquarie's remuneration approach has been in place since it was founded with only incremental changes over time as appropriate
<p>6 Arrangements are competitive on a global basis with international peers</p> <p>(Refer discussion in section 3)</p>	<ul style="list-style-type: none"> – The Board reviews the remuneration arrangements at least annually to ensure that they are equitable and competitive – The compensation ratio is used as a general guide to consideration of the overall competitiveness of remuneration levels but is not the basis on which the profit share pool is created

The primary focus of section 2 is on Executive Director remuneration, in particular, Executive Committee members. However, comments are made in relation to other staff where relevant. Macquarie's Executive Committee has responsibility for the management of Macquarie as delegated by the Macquarie Board, and is made up of a central group comprising the Managing Director and Chief Executive Officer, the Deputy Managing Director, the CRO, the CFO and the heads of Macquarie's major Operating Groups. The current members of the Executive Committee are identified in Appendix 1.

The remainder of this section discusses the remuneration structure and its individual components in greater detail. Specifically, it describes how the remuneration system:

- **emphasises** performance-based remuneration (refer section 2.1)
- **links** the quantum of an individual's annual performance-based remuneration to the individual's contribution to shareholder return drivers (refer section 2.2)
- **delivers** remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interests which encourages appropriate management of risk (refer section 2.3).

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

2.1 The remuneration structure continues to emphasise performance-based remuneration

The foundation of Macquarie's remuneration structure continues to be an emphasis on performance-based remuneration. In line with regulatory sentiment and competitive market conditions, the 'pay mix' for certain risk and finance personnel was reviewed and where appropriate, fixed remuneration is being increased to ensure a more appropriate balance between fixed and variable compensation. The base pay of other executives continues to be reviewed in line with overall market conditions.

Despite these increases, levels of fixed remuneration remain relatively low with the emphasis being on performance-based remuneration. For other Executive Directors, fixed remuneration can be relatively low or modest compared with similar roles in non-investment banking organisations. Fixed remuneration generally includes cash salary as well as non-cash benefits, primarily superannuation and nominated benefits, including those provided on a salary sacrifice basis. (Salary sacrifice is calculated on a total cost basis and includes any fringe benefit tax charges related to employee benefits).

The following table summarises the current performance-based remuneration arrangements:

Key Area	Executive Committee (including Managing Director and Chief Executive Officer) and Designated Executive Directors		Staff other than Executive Directors
	Other Executive Directors		
Amount of profit share retained	50 per cent (55 per cent for the Macquarie Group Managing Director and Chief Executive Officer)	50 per cent (for profit share retained in 2009) and 40 per cent from 2010	25 per cent above certain thresholds
How retained profit share is invested	Invested in a combination of Macquarie shares and Macquarie-managed fund equity notionally invested Investment mix will vary depending on an individual's role	Invested in a combination of Macquarie shares and Macquarie-managed fund equity notionally invested Investment mix will vary depending on an individual's role	Invested in Macquarie shares
Vesting and release of retained profit share	All retained amounts vest and are released from three to seven years after the year retained (see also forfeiture below)	All retained amounts vest and are released from three to seven years after the year retained (for profit share retained in 2009) and from three to five years for profit share retained from 2010 (see also forfeiture below)	Vesting and release occurs two to four years after the year retained
Forfeiture of retained profit share on leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a "disqualifying event" occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a "disqualifying event" occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances
Other	PSUs granted to Executive Committee members	N/A	N/A
Minimum Shareholding Requirement	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last 10 years in Macquarie shares (which is satisfied by the above requirements)	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last five years in Macquarie shares (which is satisfied by the above requirements)	

Old performance-based remuneration arrangements¹

Key Area	Executive Committee (including Managing Director and Chief Executive Officer)	Other Executive Directors	Staff other than Executive Directors
Amount of profit share retained	40 per cent (55 per cent for the Macquarie Group Managing Director and Chief Executive Officer)	20 per cent	25 per cent above certain thresholds
How retained profit share is invested	20 per cent is invested in a notional portfolio of Macquarie-managed funds and cash under the DPS Plan 20 per cent (35 per cent for the Managing Director and Chief Executive Officer) is held in the form of Macquarie shares	20 per cent is invested in a notional portfolio of Macquarie-managed funds and cash under the DPS Plan	Held in cash
Vesting and release of retained profit share	DPS Plan amounts begin to vest after five years of service as an Executive Director and fully vest after 10 years Amounts are released in cash 10 years after the year retained or earlier if they leave employment (see also forfeiture below) Macquarie shares released after three years from date shares acquired	DPS Plan amounts begin to vest after five years of service as an Executive Director and fully vest after 10 years Amounts are released in cash 10 years after the year retained or earlier if they leave employment (see also forfeiture below)	Vesting and release occurs two to four years after the year retained
Forfeiture of retained profit share on leaving	Unvested amounts in the DPS Plan are forfeited except in limited circumstances Retained profit share is forfeited if a “disqualifying event” occurs within six months of leaving	Unvested amounts in the DPS Plan are forfeited except in limited circumstances Retained profit share is forfeited if a “disqualifying event” occurs within six months of leaving	Unvested amounts are forfeited except on the grounds of redundancy, death, total and permanent disability and other limited exceptional circumstances
Other	Options granted	Options granted	Options granted to Division Directors and Associate Directors
Minimum Shareholding Requirement	Required to hold the deemed after-tax equivalent of 10 per cent of all their profit share allocations over the last 10 years in Macquarie shares	Required to hold the deemed after-tax equivalent of 10 per cent of all their profit share allocations over the last five years in Macquarie shares	

¹ They were disclosed as “current” in the 2009 Remuneration Report. These arrangements are reflected in the prior year comparative data in the Executive Remuneration disclosure in Appendix 2.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

2.2 Remuneration is linked to the drivers of shareholder returns

For most Executive Directors, the largest component of their remuneration is delivered as an annual profit share allocation, based on their performance over the year. Macquarie's approach to measuring performance for the purpose of determining annual profit share is to utilise financial performance measures which are known to be drivers of long-term shareholder returns. They are NPAT and ROE. Executives have greater "line of sight" over these measures. In the short term, share price fluctuations can be driven by a variety of factors, including market sentiment over which executives may have very little control. Therefore, Total Shareholder Return (TSR), whether absolute or relative, is not regarded as a satisfactory measure in assessing performance over just one year. Globally, regulators have recently recognised this.

NPAT and ROE were selected as the most appropriate performance measures for the following reasons:

- they are correlated over time with total shareholder returns
- they provide an appropriate incentive because they are elements of performance over which the executives can exercise considerable control. TSR, on the other hand, is influenced by many external factors over which executives have limited control
- both measures can be substantiated using information that is disclosed in audited financial accounts, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff.

These two drivers motivate staff to expand existing businesses and establish promising new activities. The use of ROE to measure excess returns - ROE relative to the cost of equity capital - creates a particularly strong incentive for staff to ensure that capital is used efficiently, while having regard to risk. Therefore, the use of these two measures, in combination, results in appropriate outcomes for shareholders.

ROE is also one of the two measures enshrined in the performance hurdle applicable on PSUs for Executive Committee members (refer section 2.5.3).

Notwithstanding these factors, other qualitative measures are also used in assessing performance.

Overview of profit share arrangements

The profit share arrangements are designed to encourage superior performance by motivating executives to focus on maximising earnings and ROE, while having appropriate regard for risk, thereby driving long-term shareholder returns. A Macquarie-wide profit sharing pool is created at the corporate level. Substantial incentives are offered in relation to superior profitability but low or no participation for less satisfactory performance.

Determination of the profit share pool

The size of the pool is determined annually by reference to Macquarie's after-tax profits and its earnings over and above the estimated cost of capital. A portion of Macquarie's profits earned accrues to the staff profit share pool. Once the cost of equity capital is met, an additional portion of the excess profits is accrued to the profit share pool. The methodology used to calculate the profit share pool is reviewed at least annually by the BRC and the Non-Executive Directors of the Board, including:

- the proportion of after-tax profit and the proportion of earnings in excess of Macquarie's cost of equity capital used to calculate the pool
- the cost of equity capital and the tax rate.

As part of this review, the CRO and the CFO advise the BRC on the risk input into the calculation of the profit share pool.

The Non-Executive Directors of the Board have discretions:

- to change the quantum of the pool to reflect internal or external factors if deemed in the interests of Macquarie and shareholders
- to defer the payment of profit share amounts to a subsequent year at a Macquarie business or individual level where it is in the interests of Macquarie and shareholders to do so.

This year, the Non-Executive Directors of the Board have exercised their discretion in relation to changing the quantum of the pool.

Allocation of the profit share pool

Allocation of the pool to businesses is based on performance, primarily, but not exclusively, reflecting relative contributions to profits (not revenue) while taking into account capital usage. It also takes into account other risk factors such as operational incidents and the risk profiles of the businesses, as identified by the CRO to the BRC.

An individual's profit share allocation is based on performance, measured primarily through the performance appraisal process that requires all staff to have at least one formal appraisal session with their manager each year.

Performance criteria vary according to an individual's role. Performance is linked where possible to outcomes that contribute directly to NPAT and excess ROE. Capital usage is important as it factors in the level of risk associated with the income derived.

Performance also takes into consideration how business is done. Superior performance looks at a range of indicators that go beyond financial performance and include risk management, governance and compliance, people leadership and upholding Macquarie's *Goals and Values*.

The CRO advises the BRC on risk management issues.

The performance of staff whose role is not linked to profit contribution is measured according to criteria appropriate to their position. Staff working in support areas may, for example, be rewarded on the basis of their contribution to Macquarie's financial reporting, risk management processes or information systems.

The Board and management seek to ensure that remuneration for risk and financial control personnel, including the CFO and the CRO, is structured in a way that does not compromise the independence of these personnel in carrying out their functions and is determined in a way that maintains Macquarie's robust risk management framework. For instance, an evaluation of their performance occurs independently of the business with which they are associated.

Profit share allocations for risk and financial control personnel are reflective of their individual performance, including the quality of the control decisions they have made, and their contribution to the quality and integrity of the control functions. The allocations to these staff are not directly linked to the profits of Macquarie or the businesses in which they operate.

The BRC reviews the allocation of the profit share pool to the central Risk Management Group and central Finance function. It also annually recommends to the Board, remuneration for all risk management and finance staff as a total category, in addition to specific recommendations for the CFO, CRO and other Executive Directors with a risk management or financial control role.

For staff with specific fund responsibilities, the performance of the relevant funds is important in determining that individual's profit share allocation. For example, in the case of the Macquarie Capital Funds business, the following factors are relevant:

- in evaluating each executive's contribution to determine their individual profit share allocation, the performance of the fund or funds for which they are responsible, and in particular, the underlying factors influencing fund performance such as management and leadership, the operational performance of the underlying assets, and effective capital management

- in the case of Executive Directors with fund responsibilities (in particular Fund Chief Executive Officers), retained profit share allocated to the Post-2009 DPS Plan is notionally invested in the relevant funds, as discussed in section 2.3.3, giving these individuals a further ongoing incentive to seek to grow the security price.

Arrangements are also in place to ensure that performance-based remuneration is appropriately allocated to the individuals who contributed to particular transactions. Therefore, businesses may further recognise cross-divisional contributions by allocating part of their profit share pool to individuals in other areas of Macquarie who have contributed strongly to their success.

In summary, profit share allocations to each individual generally reflect:

- Macquarie-wide performance – which determines the size of the overall profit share pool
- the performance of their business – which determines the profit share pool allocated to that business
- their individual performance – which determines their own share of the profit share pool for that business.

Profit share allocations to individuals are subject to retention arrangements as discussed in section 2.3.2.

Commentary on allocation to the Managing Director and Chief Executive Officer of Macquarie and the Managing Director and Chief Executive Officer of Macquarie Bank

In approving the profit share and PSU grants to the Managing Director and Chief Executive Officer of Macquarie and the Managing Director and Chief Executive Officer of Macquarie Bank, the Non-Executive Directors annually and specifically assess each Managing Director's performance by considering a range of indicators, including risk management, governance and compliance, financial performance measures, strategic initiatives, staff and human resources indicators, reputation management and monitoring, and community and social responsibility matters.

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2.3 Direct long-term alignment with shareholder interests is emphasised

The remuneration arrangements are also structured to deliver remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interests through:

- retention arrangements which encourage long-term commitment to Macquarie, and therefore, to shareholders
- the use of equity-based remuneration.

The remuneration changes approved by shareholders at the December 2009 General Meeting provide an even closer alignment of staff and shareholder interests, with a greater emphasis on longer-term incentives.

Under these new remuneration arrangements, retained Executive Director profit share from 2009 is invested in a combination of Macquarie shares, under the new equity plan, the Macquarie Group Employee Retained Equity Plan (MEREP) and Macquarie-managed fund equity notionally invested under the DPS Plan that operates for 2009 and future retained profit share (Post-2009 DPS Plan).

A tailored approach is adopted to ensure that retention arrangements and equity-based remuneration are appropriate given the seniority of the individual and their ability to influence results.

However, some overarching rules apply to equity-based remuneration:

- the following cannot be hedged:
 - shares held to satisfy the minimum shareholding requirement
 - awards under the MEREP
 - shares held under the Executive Committee Share Acquisition Plan
 - unvested options
- all shares and options must be dealt with in accordance with Macquarie's Trading Policy, which is available on Macquarie's website, including that trading must be conducted within designated trading windows.

All Executive Committee members and Voting Directors are required to at least annually disclose their financing arrangements relating to their Macquarie securities to Macquarie.

More generally, long-term alignment is encouraged through the emphasis on a degree of consistency over time in remuneration arrangements. Many initiatives on which staff work can take a long time, sometimes years, to come to fruition. Because the remuneration system is outcomes driven, profit share allocations for transactions and business development activities that are 'in progress', are low.

Staff must, therefore, have confidence that when a transaction is completed - potentially some years later - the remuneration system will recognise successful outcomes in the way the staff member anticipated at the outset of the transaction. This requires broad consistency over time.

2.3.1 Transitional arrangements

Under the new remuneration arrangements, Executive Directors were given the choice of leaving their pre-2009 retained profit share in the Pre-2009 DPS Plan, or move some or all of these amounts into the new arrangements (Transitioned Amounts).

Transitioned Amounts have been invested in the MEREP and notionally in Macquarie-managed funds (through the Post-2009 DPS Plan) according to the relevant Executive Director's role, in the manner set out in section 2.3.3. Transitioned Amounts will vest to the Executive Directors on a straight line basis over seven years from 2010 to 2016 (for Executive Committee members) or over five years (for other Executive Directors) from 2010 to 2014. The disqualifying events set out in section 2.3.7 will apply.

Any pre-2009 retained profit share not transitioned to the new arrangements will be grandfathered in the Pre-2009 DPS Plan. The old vesting, release and forfeiture provisions for Executive Director retention will continue to apply under the Pre-2009 DPS Plan, as set out in the table headed 'Old performance-based remuneration arrangements' in section 2.1.

The following sections 2.3.2 to 2.3.8 set out the new profit share arrangements as approved by shareholders at the December 2009 General Meeting.

2.3.2 Profit share arrangements – delivery of profit share

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

Role	2008	2009	2010
Managing Director and Chief Executive Officer ¹	30 per cent	55 per cent	55 per cent
Executive Committee Members	30 per cent	50 per cent	50 per cent
Designated Executive Directors	20 per cent	50 per cent	50 per cent
Other Executive Directors	20 per cent	50 per cent	40 per cent
Staff other than Executive Directors	25 per cent of profit share allocations above certain thresholds	25 per cent of profit share allocations above certain thresholds	25 per cent of profit share allocations above certain thresholds

¹ Refers to the percentage retained for Nicholas Moore in 2008 in his role as Group Head of Macquarie Capital.

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

- regulatory and remuneration trends continue to evolve and change
- Macquarie must have the ability to meet regulatory requirements
- Macquarie must have the flexibility to remain competitive in the global markets in which it operates. The global remuneration environment is a very important consideration when determining remuneration structures. Competition for talented staff is unprecedented with aggressive recruiting activity for high quality staff.

In addition, the Board has the discretion to change the percentage of profit share allocation retained to meet exceptional circumstances that may arise when a staff member moves between jurisdictions. The Board would consider changing the retention level where local laws impact the application of the Transitional Arrangements. At all times these adjustments are to ensure that all Executive Directors are in a similar situation and not disadvantaged due to local restrictions.

2.3.3 Investment of retained profit share

Retained profit share is invested in a combination of Macquarie shares under the equity plan (MEREP), and Macquarie-managed fund equity notionally invested under the Post-2009 DPS Plan. The following table shows the current percentage allocation of retained profit share that is invested in the Post-2009 DPS Plan and the MEREP, depending on the staff member's role:

Role	Post-2009 DPS Plan (notional investment in Macquarie-managed fund equity)	MEREP (Macquarie shares)
Managing Director and Chief Executive Officer, Deputy Managing Director, CFO and CRO, General Counsel	20 per cent	80 per cent
Group Head, Macquarie Capital	40 per cent	60 per cent
Group Head, Macquarie Funds Group	50 per cent	50 per cent
Other Executive Committee members	10 per cent	90 per cent
Executive Directors with Funds responsibilities	Minimum of 40 per cent to a maximum of 50 per cent depending on mix of funds management and other functions	Maximum of 60 per cent to a minimum of 50 per cent depending on mix of funds management and other functions
Other Executive Directors	10 per cent	90 per cent
Staff other than Executive Directors	Nil	100 per cent

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

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Post-2009 DPS Plan

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

The notional portfolio is set for each Executive Director according to their role, as determined by the BRC. The BRC makes an annual determination as to how each Executive Director's retained profit share that is invested in Macquarie-managed fund equity (retained DPS in the DPS Plan) for that year should be notionally invested by Macquarie. The Executive Director has no input into that decision or its timing. The following general principles are used in making this decision:

- retained DPS in the DPS Plan for Executive Directors who are involved in the management of a particular fund (e.g. the Chief Executive Officer of a fund), will be 100 per cent notionally invested in that particular fund
- retained DPS in the DPS Plan for Executive Directors who are involved more generally in the management of one of Macquarie's funds businesses, including certain Operating Group Heads, will be notionally invested in a portfolio of funds managed by that particular business
- retained DPS in the DPS Plan for other Executive Committee members will be notionally invested in a general portfolio of Macquarie-managed fund equity
- retained DPS in the DPS Plan for Executive Directors who provide other services to particular funds (e.g. advisory services), will be notionally invested in a portfolio of funds that are managed by that particular business
- retained DPS in the DPS Plan for all other Executive Directors will be notionally invested in a general portfolio of Macquarie-managed fund equity.

Notional returns on these amounts may be paid annually to Executive Directors, and these amounts are required to be disclosed as remuneration for Key Management Personnel. The notional returns are calculated based on total shareholder return. If the notional investment of retained DPS results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

MEREP

Retained profit share invested in Macquarie shares is held under the new equity plan, the MEREP. The MEREP has been established with a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). A RSU comprises a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the 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. RSUs are the primary form of award under the MEREP. Where legal or tax rules make the grant of RSUs impractical, due to different tax rules for employee equity and different securities laws, equity grants will be in the form of:

- shares held by the staff member subject to restrictions (Restricted Shares). A Restricted Share comprises a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on those Restricted Shares and to vote those Restricted Shares; or
- the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. Macquarie 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 provide for cash payments or additional DSUs in lieu of dividends paid on Macquarie 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 Macquarie in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders generally of Macquarie 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 will be provided to holders of Restricted Shares or RSUs. However, holders of DSUs have no voting rights as to any underlying Macquarie share.

These different types of equity grants enable Macquarie through the MEREP to offer substantially similar economic benefits to staff across multiple jurisdictions.

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

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

2.3.4 Income on invested retained profit share

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

Employees with retained profit share invested in the MEREP will be entitled to either receive dividends or cash payments or additional equity in lieu of dividends paid on Macquarie shares.

2.3.5 Release of retained profit share – normal vesting

The vesting period is established for each retained profit share allocation by the BRC, according to the prevailing market conditions and having regard to regulatory and remuneration trends at the time of allocation (refer to section 2.3.2 above for further commentary). The BRC has established the following release schedule for 2009 and 2010 retained profit share invested in the Post-2009 DPS Plan and the MEREP:

Role	2009 Performance Year	2010 Performance Year
Executive Committee Members (including Managing Director and Chief Executive Officer), Designated Executive Directors	one-fifth in each of years 3-7	one-fifth in each of years 3-7
Other Executive Directors	one-fifth in each of years 3-7	one-third in each of years 3-5
Staff other than Executive Directors	one-third in each of years 2-4	one-third in each of years 2-4

For each year's allocation, once the vesting period has been determined it will remain fixed for that allocation. Retained profit share is released when it vests.

2.3.6 Early vesting and release of retained profit share

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

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

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

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

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

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

Under the new remuneration arrangements, discretion has been exercised in relation to two Executive Directors who transferred employment in connection with the sale of businesses.

2.3.7 Disqualifying events - clawback

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

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

If an Executive Director leaves Macquarie and the discretion to release unvested retained amounts is exercised as described in section 2.3.6, the release will occur over the period from six months to two years after the Executive Director leaves. Different disqualifying event provisions will apply at the six month, one year and two year timeframes as follows:

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

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

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

A similar effect is achieved whilst the Executive Director is employed by Macquarie. Where it becomes apparent that an existing Executive Director has acted in a way that damages Macquarie, including but not limited to acts that led to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses, then in practice, this may cause termination of employment such that the same forfeiture provisions would apply. In other situations where the Executive Director remains employed, then in practice, a similar economic effect can be achieved by reducing or eliminating discretionary current and future profit share allocations.

2.3.8 Tax events

As described in the explanatory information provided ahead of shareholders approving the MEREP and certain benefits under the MEREP, the rules of the MEREP give the Board or its delegate the discretion to change the terms of the MEREP awards, including the vesting date, to avoid situations of undue hardship or to maintain business efficacy. The Board, the BRC or the Executive Committee under delegation from the BRC, may exercise this discretion where an employee has a tax liability on termination of employment in respect of any unvested equity award which is subject to continued vesting conditions and other restrictions beyond cessation of employment (for example, the two year clawback period described in section 2.3.7). This would enable the early release of some Macquarie shares from the MEREP, in cases where an employee terminates employment and this triggers a tax liability in respect of the MEREP awards at a time when the employee has not received the underlying shares

and may not receive the full number of shares on which they will be taxed for a considerable time. The number of shares released would be limited to the number with an aggregate value equal to the tax liability (see below). The employee would be required to contractually agree to repay an amount equal to the value of the shares released in the event that the BRC deem a disqualifying event has occurred. Approval for early release of Macquarie shares under these circumstances for Executive Committee members will reside with the BRC.

Process for determination of early release of tax liability

Where an employee terminates employment the Taxation Division will determine whether a tax liability arises in respect of retained MEREP awards and calculate an estimate of the tax liability¹. Executive Committee and/or the BRC will, on a best endeavours basis, consider, amongst other things, the possibility of the operation of the forfeiture rules in respect of the individual. For example, if there is a high risk of forfeiture, early release would not be made.

If a decision to allow early release is made, Macquarie will then instruct the Trustee to release sufficient shares to the employee to fund the estimated tax liability. Subject to the Staff Dealing Policy, the employee is then able to sell these shares and use the cash to fund the tax liability. The remaining MEREP awards will be held within the MEREP until the post-termination retention period ends.

2.3.9 Minimum shareholding requirement for Executive Directors

The retention arrangements also impose on Executive Directors a requirement to hold Macquarie ordinary shares equivalent to the aggregate of five per cent (being the deemed after-tax equivalent of 10 per cent) of their annual gross DPS allocation for the past five years (for the wider Executive Director population) or 10 years (for Executive Committee members). These shares cannot be hedged.

This requirement remains but is satisfied through the new equity retention arrangements.

2.3.10 Other equity arrangements - Staff share plans encourage broader staff equity participation

In addition to the arrangements already outlined, Macquarie has a number of employee share plans that encourage share ownership by employees under the plans.

Staff share acquisition plan

Prior to 1 January 2010, under the Macquarie Group Staff Share Acquisition Plan (MGSSAP), eligible employees in Australia were given the opportunity to nominate an amount of their pre-tax available profit share to acquire Macquarie ordinary shares. The MGSSAP was adopted by Macquarie at the time of the corporate restructure in November 2007 and substantially replicates the terms of the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) which was approved by Macquarie Bank Limited shareholders in 1999. The MGSSAP was modified in 2008 to include the ability to issue new shares as an alternative to acquiring existing shares on-market, at the option of Macquarie.

As a result of changes to the taxation rules for shares acquired under the MGSSAP, new offers will not be made from 1 January 2010.

Employee share plan

The Macquarie Group Employee Share Plan (ESP) substantially replicates the terms of the Macquarie Bank Employee Share Plan which was approved by Macquarie Bank Limited's shareholders in 1997. Eligible employees in Australia are offered up to \$1,000 worth of Macquarie ordinary shares funded from pre-tax available profit share.

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

The number of shares each participant receives is \$1,000 divided by the weighted average price at which Macquarie Group Limited's shares are traded on the ASX on the seven days up to and including the date of allotment, rounded down to the nearest whole share.

In 2010, 1634 eligible Australian employees elected to participate in the ESP (2009: 1422).

¹ Estimate based on number of retained MEREP Awards, Macquarie share price and top marginal tax rate.

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2.4 Options, while discontinued, remain outstanding

Options were previously granted to approximately the most senior 20 per cent of staff based on performance and promotion. As previously noted, Macquarie has ceased offering options.

This section explains the options arrangements that were in place for previous option grants, some of which are currently unvested. These arrangements are not in place going forward, but provide some background to assist in understanding the relevant option disclosures in Appendix 2 and Appendix 3. Final tranches will be due to vest in October 2013.

2.4.1 General terms of option arrangements

The Plan

Plan	Macquarie Group Employee Share Option Plan (MGESOP)
History	Macquarie has had an employee option plan in place since 1995, with only minor amendments to the Plan rules being made over that time. The MGESOP was established by Macquarie Group Limited with substantially the same terms as the predecessor plan, the Macquarie Bank Employee Share Option Plan, administered by Macquarie Bank Limited
Eligible staff	Associate Director, Division Director and Executive Director

Key option terms

Options over	Fully paid unissued ordinary shares in Macquarie Group Limited
Term of options	Five years
Consideration	Nil
Exercise price	Set at the prevailing market price: the exercise price will generally be the weighted average price of shares traded on ASX during one week up to and including the date of grant of the options (adjusted for cum-dividend trading and excluding certain special trades)
Vesting schedule	Options vest in three tranches after two, three and four years, giving an average vesting period of three years. However, vested options can only be exercised by Executive Directors if the relevant performance condition is also satisfied
Hedging	Executive Directors are not permitted to hedge unvested options. Executive Directors are permitted to hedge options which have previously vested because the minimum service period and relevant performance hurdles, as described in this section, have been satisfied

2.4.2 Performance hurdles for Executive Committee options

Description of performance hurdles for Executive Committee options

Applicability	Performance conditions are imposed as summarised below on options granted to Executive Directors
Description of performance hurdle	The performance hurdle requires that Macquarie's three year average ROE exceeds the three year average ROE of a reference group of companies at a certain percentile level. This hurdle operates in addition to both the vesting rules and the embedded share price hurdle
Basis of hurdle	Macquarie's three year average ROE versus companies in a Reference Index
Reference index	S&P/ASX 100 Index (note that the S&P/ASX 300 Industrials was used for options granted prior to June 2006)
Performance level required to meet hurdle	For Executive Committee members, above the 65th percentile was chosen as it was considered a challenging medium to long-term target, noting that if the hurdle is not met, none of the relevant options can be exercised
Application of retesting	No retesting for option grants has applied since June 2006. The performance hurdle is tested once only (at time of vesting). Prior to June 2006, the performance hurdle was retested on a quarterly basis until expiry
Calculation methodology	In assessing whether Macquarie's performance is above these hurdles, Macquarie obtains data from external sources and, where required, supplements this with data published by the individual companies. The percentile ranking of Macquarie, based on the three year average annual ROE against all companies in the applicable reference index, is then determined quarterly. This method of assessment was selected because the data is readily available and easily computed

2.5 Performance share units (PSUs) have been substituted for options for Executive Committee members only

One aspect of the remuneration changes approved by shareholders at the December 2009 General Meeting was the suspension of option grants, and their replacement with PSUs, which are DSUs or RSUs with performance hurdles attached, for Executive Committee members only. This was done for the following reasons:

- tax legislation requires taxation of options at the vesting date and not at the date of exercise, with no opportunity for any refund of income taxes paid in the event the options subsequently lapse due to non-exercise, rather a capital loss only is available. This acts as an incentive for exercise on vesting, limiting their use as a mechanism for long-term alignment
- options reward staff when there is an upside but there is not the same consequence on the downside. PSUs provide alignment across market cycles.

For 2009 and 2010, the PSUs granted to the Executive Committee, including the Managing Director and Chief Executive Officer, are structured as DSUs with performance hurdles. Where PSUs are structured as DSUs, holders will have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs.

Unlike options, there is no exercise price for PSUs.

2.5.1 Determination and allocation of the PSUs

The Board approves the number of PSUs to be allocated to each Executive Committee member each year as part of the annual remuneration review process. This determination has regard to overall performance of Macquarie, the extent to which the Executive Committee members have fulfilled their roles, and the long term value delivered to shareholders. The allocation to individual executives is broadly in the same manner as annual profit share allocations i.e. it is performance-based.

2.5.2 Vesting Schedule

The PSUs vest in three equal tranches after two, three and four years from the deemed vesting commencement date (typically 1 July in the year of grant), giving an average vesting period of three years. As a general rule, unvested PSUs will lapse on termination. However, the Board or the BRC has the authority to accelerate the vesting of PSUs. The Board or the BRC may consider exercising this authority where, for example, a staff member dies, is totally and permanently disabled, gives notice of their intention to enter into genuine retirement or a staff member's employment ends on the grounds of redundancy, illness or in other limited exceptional circumstances, such as hardship or where business efficacy justifies exercising the discretion.

2.5.3 Performance hurdles for Executive Committee PSUs

PSUs issued under the MEREP will only be released or become exercisable upon the achievement of certain performance hurdles. Two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded.

The BRC will periodically review the performance hurdles, including the reference group, and has the discretion to change the performance hurdles in line with regulatory and remuneration trends.

Description of performance hurdles:

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

The reference group comprises significant Australian financial companies within the ASX100 as well as Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group for the 2009 and 2010 PSU allocations is comprised of ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

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Hurdle 2 – 50 per cent of the PSUs, based solely on compound average annual growth rate (CAGR) in EPS over the vesting period. Awards will vest on a sliding scale with 50 per cent vesting at EPS CAGR of 9 per cent and 100 per cent vesting at EPS CAGR of 13 per cent. For example, if EPS CAGR was 11 per cent, 75 per cent of the award would vest.

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

Rationale for selection of performance hurdles:

- ROE and EPS are considered appropriate measures of performance as they are considered to be drivers of longer term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining annual profit share
- the addition of an EPS objective provides closer alignment with the interests of shareholders as it is a measure with which they are directly concerned. In addition, such a measure is particularly appropriate for the Executive Committee who are at a level within Macquarie where they can affect its achievement without being highly impacted by factors, including market sentiment, over which other executives have reduced control; ROE and EPS can be substantiated using information that is disclosed in audited financial statements, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff
- the use of a sliding vesting scale diversifies the risk of not achieving the hurdle for executives, provides rewards proportional to performance for shareholders and replaces the all-or-nothing test which some have argued could, in the current climate, promote excessive risk taking. Sliding vesting scales are also more widely used and supported by governance agencies

- use of a reference group of significant Australian financial companies and international peers provides a more appropriate reference group than the previous use of the S&P/ASX 100 Index which includes only domestic companies and a small proportion of financial services institutions. This also recognises that, following the significant changes in global financial markets, regulated financial institutions will likely face increased regulatory requirements, which other companies will not. The inclusion of international peers recognises the extent of Macquarie's internationalisation. At 31 March 2010, over half of Macquarie's income and approximately half of Macquarie's staff were offshore. Also, international ownership of Macquarie's shares remains significant with non-Australian ownership averaging approximately 33 per cent over the five years to 31 March 2010
- the approach is consistent with that advocated by APRA in not using TSR as a measure.

Performance level required to meet hurdles:

- being two, three or four year average measures aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well insulated from short-term fluctuations
- the ROE hurdle has vesting only commencing if the mid-point of peers' performance has been exceeded and 100 per cent vesting is only achieved if the 75th percentile has been reached
- the use of an absolute EPS hurdle requires Macquarie to deliver increased business results before awards are vested, lessening the chance that awards could vest when results are negative as with the use of a relative measure
- the chosen EPS CAGR hurdle is considered appropriate having regard to a range of factors including historical average market EPS CAGR figures. The table below shows the five year historical mean and 75th percentile EPS CAGRs for some relevant market sectors. The figures include reported 2009 annual results, which have been affected by the global economic downturn.

5 year EPS CAGR (per cent per annum)¹

	S&P/ASX 100 ex Resources	S&P/ASX Banks	S&P/ASX Financials ex Property Trusts	MSCI Financials
Mean	10.4	5.7	8.7	5.7
75th percentile	17.5	11.1	11.1	13.2

Macquarie's EPS CAGR over the same five year period was (2.8) per cent per annum and since listing in 1996 has been 12.6 per cent per annum.

Further, many of Macquarie's international peers do not have performance hurdles on their equity plans.

¹ Data provided by Macquarie Research Equities as at 31 March 2010. MSCI refers to the MSCI All Countries World Index.

2.6 No special contractual termination payments are made

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

Length of contract	Permanent open ended
Remuneration review period	1 April to 31 March annually
Directors' profit share participation	All Executive Directors are eligible to be considered for a DPS allocation, referred to in section 2.3.2, which ensures that a large part of their remuneration is 'at risk'. The DPS terms are set out in the Macquarie Group Executive Directors' Remuneration Booklet (also known as the Grey Book). A departing Executive Director's retained DPS will only be released early on a discretionary basis in the case of genuine retirement, redundancy and certain other limited exceptional circumstances and will be subject to forfeiture provisions. Upon retirement from Macquarie, Executive Directors may be entitled to the vested retained DPS held under the Pre-2009 DPS Plan scheme provided that it is determined that no disqualifying events have occurred
Option participation	Executive Directors are no longer eligible for options (five year options over ordinary unissued Macquarie ordinary shares). Subject to discretions able to be exercised by the Board or its delegates, on termination from Macquarie, all Executive Directors continue to remain entitled to retain options which are vested at the termination date
PSU participation	Executive Committee are eligible to receive PSUs which are DSUs with performance hurdles and are a replacement for new options grants
Termination of employment	Termination of employment by Macquarie or the Executive Director requires four weeks notice. ¹ Depending on the jurisdiction, Executive Directors may also receive a payment in lieu of any accrued but untaken leave and entitlements. Aside from notice (for which a payment or part payment may be made in lieu of being required to work the notice subject to legislative restrictions on termination benefits), no other solely contractual termination entitlements exist

¹ Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie may receive an additional weeks notice where they are over 45 years of age and have more than two years' continuous service.

Subject to variations arising from local employment, transmission of business and other laws in the jurisdictions in which Macquarie operates, these contractual arrangements generally apply to all staff at Executive Director level.

Executive Directors who chose to keep some or all pre-2009 profit share in the Pre-2009 DPS Plan as per the transitional arrangements detailed in section 2.3.1 and leave Macquarie are eligible to receive the vested portion (subject to there being no disqualifying events in the period of up to six months following the departure) under the Pre-2009 DPS Plan. Executive Directors who leave Macquarie may also retain any vested but unexercised options (which will lapse if they are not exercised in the six months following departure).

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

3 Remuneration arrangements are delivering results, although comparisons are difficult because of the changes

3.1 Comparisons with peers are difficult

As a result of the changes in the investment banking landscape noted in section 1, Macquarie reconsidered its peer group in light of the absence of Babcock & Brown, Bear Stearns and Lehman Brothers. Peer comparisons have always been complicated by the distinct nature of Macquarie's businesses. Where possible, the same global investment banking peer group as last year has been consistently used throughout the Remuneration Report. i.e. Goldman Sachs, Credit Suisse, Deutsche Bank, JP Morgan Chase, Merrill Lynch (now a subsidiary of Bank of America), Morgan Stanley, and UBS. Lazard, Jefferies, and Barclays will also be used this year where there is available data. As with Macquarie's other peers, these firms have a different business mix to Macquarie. However, the BRC considered them to be appropriate peers on the basis that they operate in the same markets and compete for the same people as Macquarie.

This year, comparisons are even more difficult for the following reasons:

- the peer group has changed this year
- some of the peers were or are recipients of TARP funds, which have impacted their remuneration arrangements
- some peers are or have become parts of larger organisations, often with large retail operations which can distort comparisons
- remuneration delivered as deferred equity is amortised over the vesting period of the equity. Different deferral levels and different vesting periods therefore result in different accounting results, even if the underlying quantum of remuneration is the same
- the level and detail of disclosure differs amongst peers. Segment data is particularly relevant where the investment banking segment is part of a larger organisation
- the compensation to income ratio (compensation ratio) is a non-GAAP measure, allowing peers to adopt different definitions of 'income' used in the calculation of the ratio. For example, some peers report the compensation ratio using 'net revenue' on a 'pre-impairment' basis, whereas others include impairments in net revenue, as does Macquarie.

3.2 Historical comparisons with Macquarie are difficult

In addition to the difficulty in comparing Macquarie with its peers, comparison with prior years' historical data is also difficult for the following reasons:

- Changes in the composition of remuneration, and therefore changes in accounting treatment. Under the old remuneration arrangements, the whole of the profit share pool, including amounts held subject to restrictions, for each financial year was charged against earnings in that year. Under the revised arrangements, accounting standards dictate that retained profit share delivered as Macquarie equity is recognised as a share based payment, expensed over the vesting period, which is up to seven years for the most senior group. This year also reflects the accounting adjustments required to transition to the new arrangements including the treatment of 2009 retention delivered as equity. These adjustments are explained in Appendix 2
- The proportion of fixed remuneration versus variable remuneration differs year on year. For FY2010, the proportion of fixed remuneration is significantly higher than variable remuneration. This is firstly because the cost of equity capital has not been met and therefore no amount of the excess profits over the cost of equity capital has accrued to the profit share pool and secondly, because fixed compensation is higher this year than 2009, when one-off items such as redundancies are excluded, because staff numbers are greater
- Headcount grew from 12,716 to 14,657 over the 12 months to 31 March 2010. With a view to delivering shareholder value over the medium term, and as part of Macquarie's continual organic growth, a number of businesses have selectively hired senior staff. Some of these hires occurred towards the end of the FY2009, but the trend has continued during the current financial year on a much larger scale. For FY2010, approximately 200 new senior executives (Associate Director level or above) were hired specifically for the purpose of developing these organic growth initiatives. In addition to this, Macquarie has acquired a number of businesses and associated teams outside of Australia, largely in higher cost jurisdictions, to strengthen Macquarie's product offering and global presence. In the 12 months to 31 March 2010, Macquarie's staff numbers have increased by a net of approximately 1400 as a result of seven acquisitions. The hiring of these staff is an investment for the future as the benefit of their activities is yet to be fully realised in income

- The denominator in the compensation ratio is net operating income as reported, which includes impairments. Prior to 2008, impairments were not significant. However, since then, the level of impairments has increased, resulting in a lower level of reported net operating income
- In both 2009 and 2010, the Non-Executive Directors of the Board have exercised their discretion to change the quantum of the profit share pool to reflect internal or external factors where they have considered it to be in the interests of Macquarie and shareholders to do so. In doing this, the Board considered shareholders' interests, the employment environment and staff retention requirements. It is critical that Macquarie has the flexibility to remain competitive in the global markets in which it operates while having due regard to shareholder interests over the short and medium term
- Compensation expense includes notional earnings on prior year restricted profit share allocations which are held under the Pre and Post-2009 DPS Plans. These notional earnings or losses reflect the investment performance of the assets in which the prior year retained DPS amounts have been invested. Their inclusion in the compensation expense, particularly for Key Management Personnel disclosed in the Remuneration Disclosure in Appendix 2 may therefore cause distortions when year-on-year remuneration trends are examined. For FY2009, compensation for Key Management Personnel included a net notional loss of \$25.3 million, whereas FY2010 includes a gain of \$2.2 million
- Even though Macquarie has ceased offering options in 2009, the accounting expense in regards to previously granted options continues to be recognised evenly over the vesting period. For FY2010, Macquarie recorded an options expense of \$109 million. The majority of these options are currently out-of-the-money.

3.3 With these caveats, the relationship between Macquarie's remuneration and its performance is strong relative to peers

The overarching goal of the remuneration framework is to drive superior shareholder returns over the long term. Macquarie's remuneration approach and its consistency over time have contributed to maximising growth in earnings and return on equity. This has led to strong shareholder returns, although these have been impacted in recent times by the global financial crisis.

As economic conditions have begun to trend back to normal, Macquarie's financial results have also begun to recover, although ROE remains at historically low levels. This is shown in the following table:

Performance over past five years 2005-2010

		2005	2006	2007	2008	2009	2010	5 year Growth
Earnings								
NPAT attributable to ordinary equityholders	\$ millions	812	916	1,463	1,803	871	1,050	29%
Basic EPS	cents per share	369.6	400.3	591.6	670.6	309.6	320.2	(13.4)%
ROE								
Return on average ordinary shareholders' funds (p.a.)	%	29.8	26.0	28.1	23.7	9.9	10.0	
Total shareholder returns (TSR)								
Dividend – Interim and Final	cents per share	161	215	315	345	185	186	
Dividend – Special	cents per share	40	–	–	–	–		
Share price at 31 March	\$	48.03	64.68	82.75	52.82	27.05	47.25	(1.6)%
Annual TSR ¹	%	39.0	40.2	32.6	(33.6)	(44.1)	79.6	
Five-Year TSR								23.8%
10 year TSR								171.5%

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

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

Long-term NPAT has grown relative to peers

One of the measures used to compare relative performance is long-term profit performance. Macquarie's analysis shows long-term profit performance is equal to or better than its international peers.

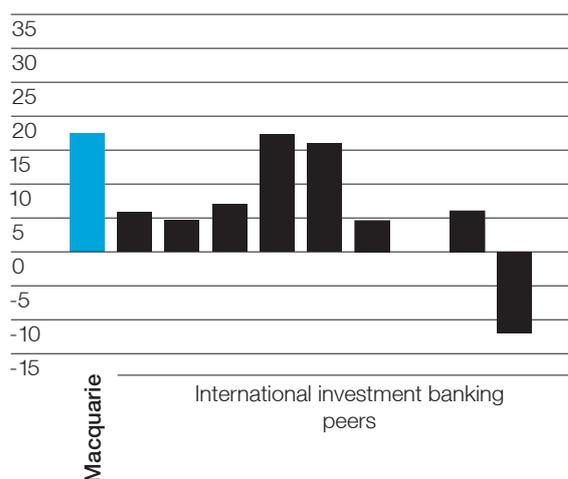
Peers relative 10 year Growth in NPAT: 2000 - 2010

	Compound 10 year Annual Growth Rate %
Macquarie	17
Peer	6
Peer	5
Peer	7
Peer	17
Peer	16
Peer	5
Peer	N/M ¹
Peer	6
Peer	(12)
Peer	N/M ¹

¹ The N/M references above refer to where peers have recorded a loss for the current year and the compound 10 year annual growth rate cannot be calculated, or where they have not continuously reported over 10 years.

Peers are disclosed under the next chart.

NPAT 10 year compound annual growth rate Macquarie versus international investment banking peers %



Peers comprise Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Merrill Lynch (Bank of America subsidiary), Morgan Stanley and UBS. The compound 10 year annual growth rate cannot be calculated where the peer has recorded a loss either in the current year or 10 years ago, or have not continuously reported results over 10 years, i.e. Lazard and UBS. Where profits on the disposal of discontinued operations represents a significant proportion of NPAT, this has been excluded.

ROE is historically low, reflecting conservative liquidity management leading up to and following the global financial crisis

Whilst ROE is at a historically low level, it has held up well compared to most peers. Macquarie's 10 year average ROE is higher than all of its peers, reflecting that it has been generally less volatile than peers over the same period. More specifically, Macquarie has maintained a conservative balance sheet during the financial crisis, even though this has had adverse remuneration consequences.

Peer ROE over 10 years 2000-2010¹
Macquarie versus international investment banking peers

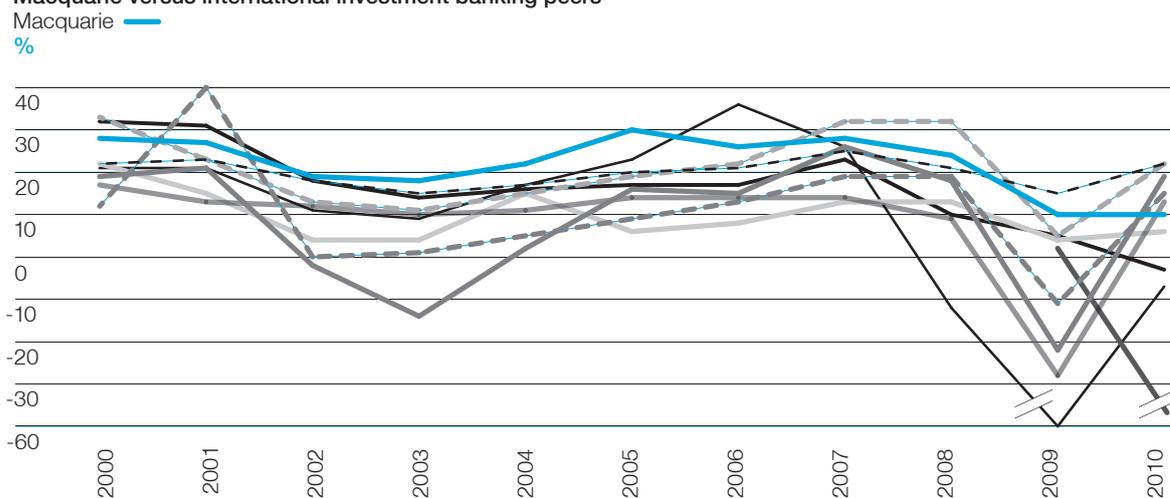
	ROE			
	1 year average %	3 year average %	5 year average %	10 year average %
Macquarie	10.0	14.5	19.5	21.4
Average of Peers	4.9	1.5	10.6	12.0
Peer	22.4	19.2	20.6	19.6
Peer	19.3	5.1	11.3	7.9
Peer	14.8	7.3	10.7	11.0
Peer	21.8	19.3	22.4	19.4
Peer	12.6	(2.1)	4.3	8.2
Peer	6.4	7.7	8.8	8.8
Peer	(43.0)	(20.5)		
Peer	(2.6)	4.1	10.6	14.9
Peer	(7.4)	(27.0)	(3.8)	6.2

¹ Average of most recent 10 years, except in cases where 10 years of continuous data is not available for a peer, in which case the longest time period for which continuous data is available for that peer has been used

Peers comprise Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, Jefferies, JP Morgan Chase, Lazard, Morgan Stanley and UBS. In previous years, Merrill Lynch has been used in this analysis but ROE data is no longer available for Merrill Lynch since it was acquired by Bank of America.

Source: Peer underlying data from Bloomberg.

10 year ROE
Macquarie versus international investment banking peers



Directors' Report – Remuneration Report for the financial year ended 31 March 2010 continued

Compensation expense to income ratio is in line with peers

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

Macquarie's compensation ratio is compared with that of a group of peers in the following chart. Information has been provided for the last three years. Macquarie's analysis shows that its overall compensation ratio is in line with its peers for FY2010. In FY2009, it was anticipated that Macquarie's compensation ratio would return to historic levels, given that 2009's lower ratio reflected the extraordinary market conditions at that time. When comparing Macquarie's current and historic compensation ratios, one must be mindful of the limitations and difficulties referred to in section 3.2.

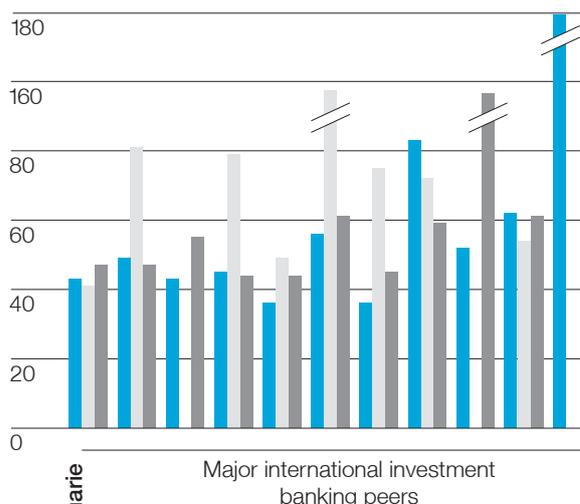
While the compensation ratio effectively adjusts for differences in size between organisations, it is not an entirely satisfactory measure to use in assessing compensation levels because it does not take into account factors such as:

- differences in the way that remuneration is delivered (delivery vehicle, amount deferred, vesting timeframe), and therefore differences in the way that remuneration is accounted for
- differences in the business mix between comparator organisations
- performance differences between organisations, including such factors as capital usage and quality of earnings
- variations in accounting practices used by comparator organisations, including the treatment of impairments as noted in section 3.1
- the extent of outsourcing activities
- differences in appetite to risk and assumptions made in regards to risk.

The adoption of different definitions of 'income' by peers in the calculation of the compensation ratio restricts the comparability of peer compensation ratios. In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some peers.

Compensation ratio: 2008-2010¹

2009/2010 ■ 2008/2009 ■ 2007/2008 ■
%



¹ Based on most recent statutory accounts/filings. Compensation ratios have been excluded where reported net revenue was negative.

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

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

This compensation ratio analysis supports Macquarie's overall belief that its remuneration policies, including the approach to determining the profit share pool, operate in a manner that is related to profit (rather than revenue) and that they are sound.

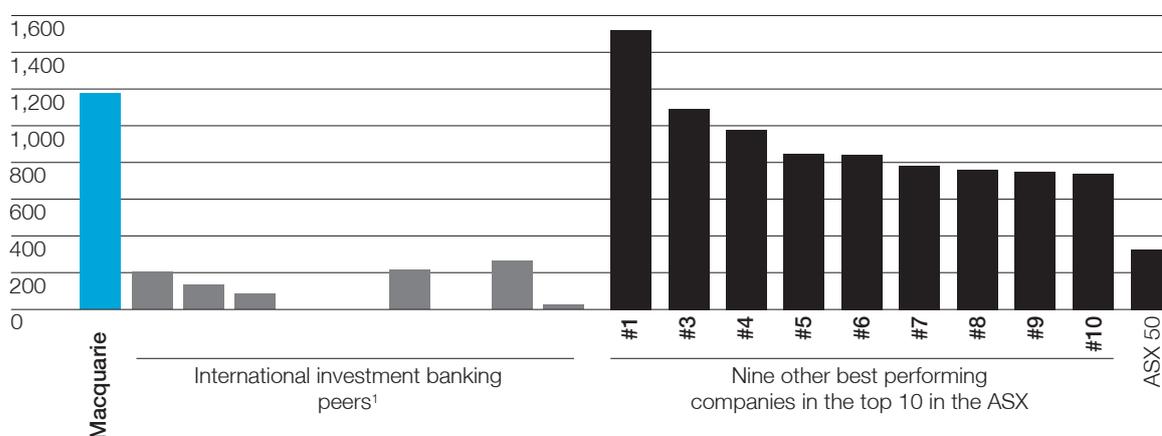
TSR compares favourably

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

TSR since July 1996

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

%



¹ International investment banking peers comprise Barclays, Credit Suisse, Deutsche Bank, JP Morgan Chase, Morgan Stanley and UBS. Peers which have been included in comparative analysis elsewhere in this Report but which have not been continuously listed since Macquarie Bank Limited's date of listing (29 July 1996) have been excluded from this chart, i.e. Goldman Sachs, Jefferies and Lazard. In previous years, Merrill Lynch has been used in this analysis but TSR data is no longer available for Merrill Lynch since it was acquired by Bank of America.

Macquarie's TSR since listing is higher than that of all but one other company that was in the ASX Top 50 at the time that MBL listed in July 1996, and is significantly higher than the TSRs of the international investment banking peers over the same period.

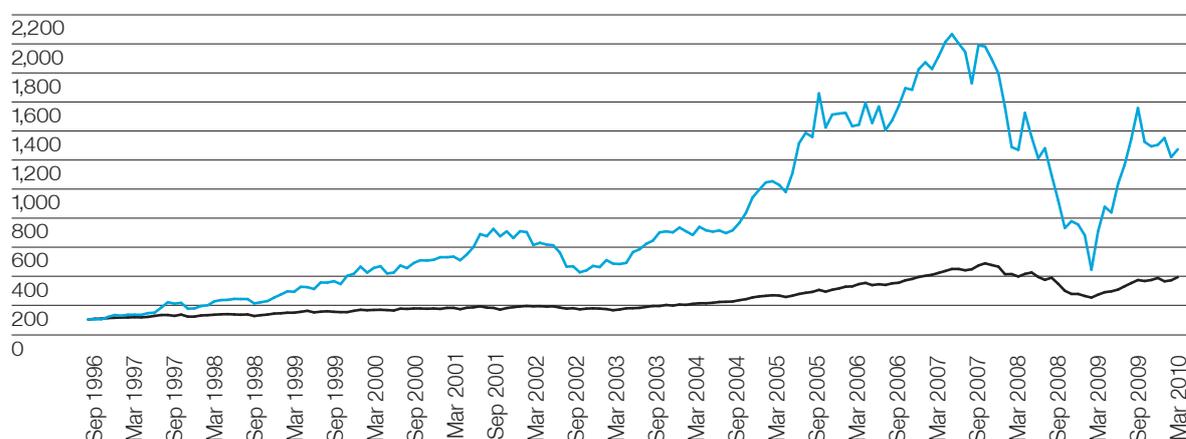
Similarly, Macquarie's shareholder returns continue to outperform the All Ordinaries Accumulation Index since listing.

Macquarie TSR versus the All Ordinaries Accumulation Index

29 July 1996 to 31 March 2010

Macquarie TSR — All Ordinaries Accumulation Index

%



Indexed to 100 on 29 July 1996. The "All Ordinaries Accumulation Index" line in the above chart is based on the S&P/ASX 500 Accumulation Index from 31 March 2000. Prior to this, it was based on the All Ordinaries Accumulation Index. Macquarie TSR calculations here and throughout this Report assume continuous listing. Hence, they are based on Macquarie Bank Limited (ASX code: MBL) data up to and including 2 November 2007, the last day of trading of Macquarie Bank Limited shares, and Macquarie Group Limited (ASX code: MQG) data from the commencement of trading Macquarie Group Limited shares on 5 November 2007 onwards.

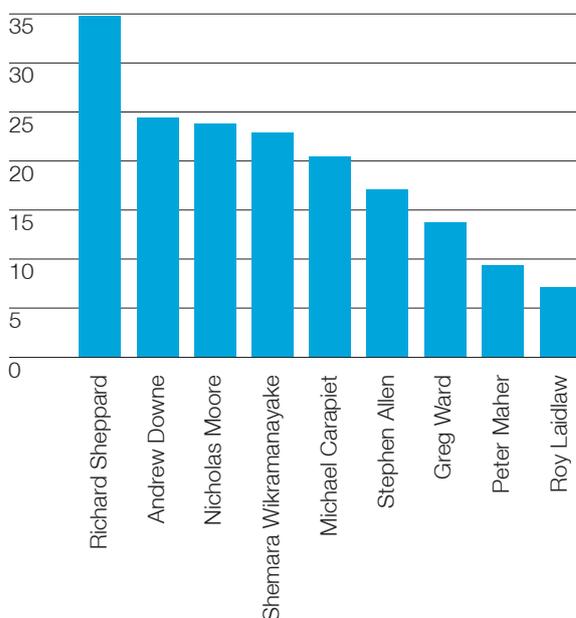
Directors' Report – Remuneration Report for the financial year ended 31 March 2010 continued

Staff retention is satisfactory, although it has been under pressure in response to an increasingly competitive market

A key goal of Macquarie's remuneration arrangements is to attract, motivate and retain high quality people and ensure they are focused on generating shareholder value by remunerating them commensurate with their performance and Macquarie's overall performance. The Board's view is that currently, Macquarie is attracting and retaining the people it needs to meet its business goals. However, there is growing pressure on staff retention in response to an unprecedented competitive market as indicated by the increase in voluntary Director level turnover from six per cent in 2009, to approximately 10 per cent in 2010. This is still considered to be a satisfactory result in the current competitive market.

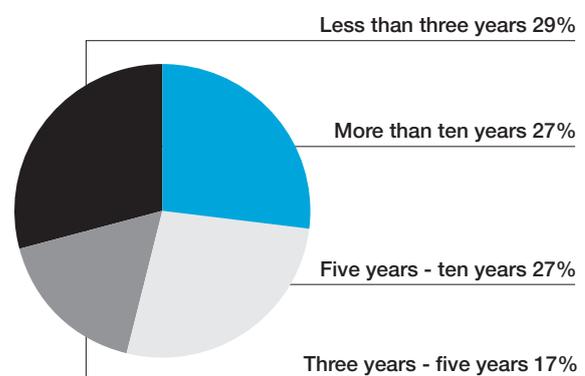
Macquarie continues to have a highly experienced senior management team. The average tenure of Macquarie's Executive Committee is over 19 years.

**Tenure of Executive Committee members
Number of years at Macquarie**



This depth of experience continues outside of the Executive Committee. As at 31 March 2010, 27 per cent of Director level staff have at least 10 years' experience with Macquarie, and a further 27 per cent have between 5 and 10 years' experience¹ with Macquarie:

Directors' tenure as at 31 March 2010



¹ This measure includes accumulated service at acquired companies, for example ING's Asian Equities business.

Compensation is in line with performance

Macquarie has to balance its goal of retaining and motivating people through remuneration against ensuring staff are paid commensurate with Macquarie's overall performance. This aligns staff and shareholder interests. The analysis below shows that while overall profits have declined over the last three years, staff compensation has also declined, albeit not to the same extent due to overall increase in fixed compensation, because of the increase in staff numbers, as discussed in section 3.2. Key Management Personnel remuneration, both including and excluding earnings on retained profit share amounts, have significantly declined over the same period, demonstrating that Macquarie's remuneration system is working.

Comparison of performance measures and executive remuneration measures: 2006 – 2010

Performance measures		2006	2007	2008	2009	2010	Increase / (Decrease) 2010 vs. 2006
NPAT	\$m	916	1,463	1,803	871	1,050	15%
Basic EPS	cents per share	400.3	591.6	670.6	309.6	320.2	(20%)
Executive remuneration measures							
Total Compensation Expense	\$m	2,286	3,472	3,878	2,247	2,848	25%
Remuneration – Executive Key Management Personnel	\$m	137.2	207.1	124.7	11.4	45.2	(67%)
Remuneration excluding earnings on restricted profit share – Executive Key Management Personnel	\$m	134.8	193.3	140.2	36.7	43.0	(68%)

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

4 Strong governance has been exercised

Effective governance is central to Macquarie's remuneration strategy and approach. As noted in section 1, governance expectations have significantly increased. The Board considers that strategies are in place to provide even stronger governance of Macquarie's remuneration approach. The Board aims to ensure that Macquarie's remuneration system is sound in the following ways:

- strong Board and Board Remuneration Committee (BRC) oversight
- assessment of risk as part of the profit share allocation process
- independent remuneration review.

These key elements of Macquarie's approach are described below.

4.1 Strong Board oversight exists to ensure sound overall remuneration governance

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

The BRC currently comprises four Non-Executive Directors, a majority of whom are Independent, including the BRC Chairman:

Helen Nugent	BRC Chairman	Independent Non-Executive Director
David Clarke ¹	BRC Member	Non-Executive Chairman
John Niland	BRC Member	Independent Non-Executive Director
Peter Warne	BRC Member	Independent Non-Executive Director
Kevin McCann ²	BRC Member	Independent Non-Executive Acting Chairman

¹ Due to illness, Mr Clarke sought and was granted leave of absence from 27 November 2008 to 30 August 2009.

² Mr McCann was appointed Acting Chairman of Macquarie Group Limited and a BRC member on 27 November 2008 for the duration of Mr Clarke's absence and served in this capacity during that time.

The BRC members have the required experience and expertise in both human resources and risk to achieve effective governance of Macquarie's remuneration system. All members of the BRC are also members of the Board Risk Committee, with Mr Warne being the Acting Chairman of that committee in Mr Clarke's absence, and the Chairman since 27 August 2009. In addition, all members of the BRC have extensive experience in remuneration, either through their professional background or as members of the remuneration committees of other boards.

The BRC has a regular meeting cycle and held a significant number of additional meetings this year in order to address the various remuneration issues arising from the changing remuneration environment. The BRC met 20 times over the last financial year. Attendance at the meetings is set out in the Directors Report.

The Board pays serious, sustained attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives.

The responsibilities of the BRC are set out in a formal charter which is available on Macquarie's website

The Charter was reviewed and amended during the year to reflect the requirements of APRA's Prudential Standard APS 510. The amendments included the specific inclusions of the following BRC responsibilities:

- ensuring that Macquarie's remuneration policies and practices support Macquarie's risk management framework
- liaising with the Board Risk Committee and the Board Audit and Compliance Committee to ensure there is effective coordination between the committees to assist in producing a properly integrated approach to remuneration that appropriately reflects risk
- reviewing and assessing the effectiveness of Macquarie's remuneration policy including compliance with regulatory requirements
- reviewing and making specific remuneration recommendations for persons whose activities may in the BRC's opinion affect the financial soundness of Macquarie. This is in addition to the existing specific remuneration recommendations in respect of Executive Voting Directors and Executive Committee members.

Board oversight of the approval framework for remuneration recommendations can be summarised as follows:

Subject to the appropriate management of conflict of interest issues, the Boards of Macquarie and Macquarie Bank, as appropriate, approve the following on the recommendation of the BRC:

- the remuneration policy for the whole of Macquarie (not just for the Executive Committee) including:
 - assessing the effectiveness of the remuneration policy and compliance with legal and regulatory requirements
 - material changes to the remuneration policy including remuneration structure, retention and termination policies for staff
 - material changes to the recruitment policies and procedures for Macquarie's senior management team (Executive Committee and other Operating Group Heads)
- all individual remuneration/profit share recommendations for members of the respective Executive Committees and other Executive Voting Directors (including the Managing Director), and other persons whose activities may, in the BRC's opinion affect the financial soundness of Macquarie
- all individual PSU grants to members of the respective Executive Committees, with the proviso that grants to Executive Voting Directors (including the Managing Director) must be approved by shareholders at the Annual General Meeting
- other remuneration recommendations relating to individuals or groups of individuals which are disclosed or are significant because of their sensitivity or precedent implications, or because they are covered by regulatory standards
- the continued application of the profit share methodology and any adjustments
- determination of the total PSU pool available for Executive Committee members
- recommendations relating to the remuneration framework for the Non-Executive Directors of Macquarie and Macquarie Bank
- appropriate levels of delegated responsibility from Macquarie's Board to management for remuneration related policy and practice decisions
- remuneration recommendations relating to Non-Executive Directors of Macquarie and Macquarie Bank.

The BRC approves the following matters on behalf of the Macquarie Board:

- changes to the remuneration, recruitment, retention and termination policies and procedures not requiring Macquarie Board approval
- material changes to superannuation/pension arrangements
- the percentage of Executive Directors' retained profit share allocated to Macquarie shares and Macquarie-managed fund equity
- the specific notional portfolio allocations of retained DPS amounts for individual Executive Directors.

The BRC approves the following matters on behalf of both the Macquarie Board and Macquarie Bank Board:

- all individual remuneration/profit share recommendations for Executive Directors, other than those required to be approved by the Non-Executive Directors of Macquarie and Macquarie Bank Boards as noted above
- remuneration recommendations made outside of policy relating to individuals or groups of individuals (unless required to be approved by the Board)
- all individual Director promotion equity grants to staff other than those designated above.

The BRC also has the authority to monitor the implementation of the executive remuneration policy, including an annual review of compliance with the Executive Director minimum shareholding requirements.

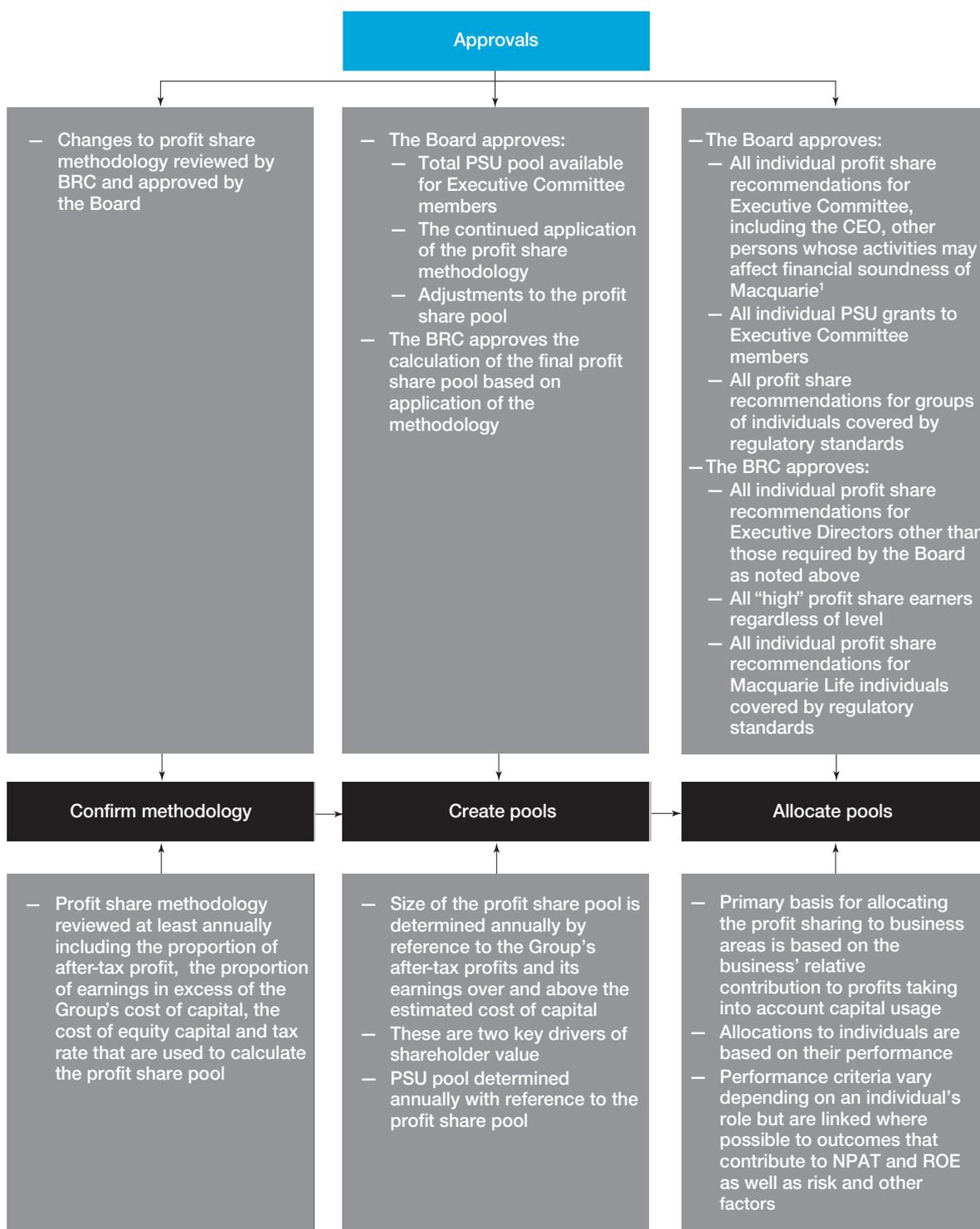
The Board has adopted internal guidelines on declaring and dealing with conflicts of interest. These are rigidly followed by the BRC.

This remuneration governance framework ensures that remuneration recommendations relating to staff at various levels of seniority must be approved at an appropriate level of authority.

The following diagram highlights the Board's involvement with critical remuneration decisions through the annual remuneration cycle.

Directors' Report – Remuneration Report for the financial year ended 31 March 2010 continued

Board oversight of remuneration decisions



¹ On the proviso that equity grants to the Managing Director and Chief Executive Officer, being an Executive Voting Director, must be approved by shareholders at the AGM.

4.2 Risk is assessed as part of the profit share allocation process

The Board considers that the effective alignment of remuneration with prudent risk taking to be a fundamental criteria for any successful remuneration system.

The Board's approach to risk management is to make risk decisions at multiple levels.

The Board has always used both executive judgement and quantitative risk measures to determine the quantum of variable remuneration allocations. The quantitative measures are as follows:

- the profit share pool is determined by reference to both profit (not revenue) and earnings over and above the estimated cost of capital
- ROE is taken into account at a Macquarie-wide level and economic and prudential capital usage at a business group level for profit share pool allocation
- the performance hurdle for existing Executive Director options and Executive Committee PSUs to vest is linked to ROE, not TSR.

The Board acknowledges that quantitative risk measures have limitations and, therefore, overlays these measures with executive judgement. Just as judgement is required in managing Macquarie's risk profile, significant judgement is exercised when risk-adjusting profit share allocations. When assessing the performance of businesses and individuals, management and the BRC look at a range of factors, including risk management, governance and compliance, people leadership and upholding Macquarie's *Goals and Values*.

In addition to this, the Non-Executive Directors of the Board have discretion to change the quantum of the profit share pool to reflect internal or external factors if deemed in Macquarie's and shareholders' interests, and/or to defer the payment of profit share amounts to a subsequent year at a company-wide, business or individual level where it is in the interests of Macquarie and shareholders to do so.

To strengthen Macquarie's arrangements in this area, the CRO reports to the BRC on capital allocation in respect of risks assumed and its impact on the overall profit share pool, and the profit share allocated to individual Operating Groups.

The Board seeks to ensure that remuneration is sensitive to risk outcomes in the following three ways:

Remuneration outcomes must be consistent with risk outcomes

Profit share allocations are truly variable. The profit share component is variable upward and downward in response to good or poor performance. The fact that the profit share pool at a Macquarie-wide level is determined by reference to both profit and earnings over and above the estimated cost of capital ensures that there is no available profit share in the event of a loss at a Macquarie level other than via the Board's discretion.

Remuneration payout schedules must be sensitive to the time horizon of risks

Under the revised remuneration arrangements, the proportion of an Executive Director's profit share allocation that is deferred and subject to the time horizon of risk has increased from 20 per cent to 50 per cent for 2009, and to 40 per cent for 2010 and for Executive Committee members from 40 per cent to 50 per cent (55 per cent for the Managing Director and Chief Executive Officer).

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

Consistent with previous arrangements there are no "golden handshake" payments.

The mix of cash, equity and other forms of remuneration should be consistent with risk alignment

Macquarie adopts a tailored approach to ensure that the retention levels and equity-based remuneration is appropriate given the seniority of the individual and their ability to influence results.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

4.3 An independent remuneration review has been undertaken

The BRC has access to Macquarie senior management and has retained independent consultants, Towers Watson for the use of the Board to obtain advice on the appropriateness of remuneration packages and other employment conditions as required.

The BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of Executive Director remuneration from a US office of Towers Watson. The review considered the overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data.

Towers Watson's findings were that:

- Macquarie has used essentially the same remuneration system since Macquarie's founding
- the objectives on which Macquarie's remuneration system are built are similar to those cited in other leading global investment banks, with the paramount goal to encourage management to drive shareholder returns over the short and longer term
- Macquarie's remuneration system:
 - has helped ensure that pay and performance are linked tightly
 - has several means to align executive reward and shareholder value creation
 - orients senior staff toward longer-term value creation rather than short-term benefits
- Macquarie's remuneration governance process is fairly similar to that in place at Macquarie's peer US investment banks

– Macquarie's remuneration components support its remuneration principles and are very much in line with practices at peer global investment banks, including that:

- fixed remuneration is modest relative to total compensation, the bulk of which is delivered through variable means (annual and long-term incentives)
- the annual profit share is based on profit and return on equity, which are recognised by most peers as necessary to drive share price
- individual profit share awards to executives are highly differentiated by individual contribution and results
- a significant portion of profit share is invested in both Macquarie equity and Macquarie-managed funds equity and withheld for several years
- executives must maintain an equity stake in the company
- equity-based compensation (in the form of Macquarie shares and Macquarie PSUs for Executive Committee) is used as a long-term incentive for executives
- Macquarie imposes a long vesting period on the portion of profit share deferred
- Macquarie's total remuneration as a percentage of revenue and as a percentage of earnings is centred near the median relative to investment banking peers
- like other investment banks, Macquarie has a long holding period for senior executives.

An external review of Non-Executive Directors' remuneration was also commissioned in early 2010 from Guerdon Associates (refer section 5.2 for details).

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

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

5.1 Non-Executive Director remuneration policy

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

- setting Board and Board Committee fees in line with market rates for relevant Australian financial organisations for the time commitment and responsibilities involved
- delivering these fees in a form that is not contingent on Macquarie's performance
- not providing termination or retirement benefits other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

Thus, Macquarie's Non-Executive Director remuneration arrangements are structured quite differently from the executive remuneration arrangements. Executive Directors are not remunerated for acting as Voting Directors.

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

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

5.2 Board and Committee fees

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

Such an external review was completed in early 2010 to ensure that the Non-Executive Directors' remuneration was in line with the relevant benchmark organisations and to ensure that the methodology and framework employed was appropriate. The review was conducted by Guerdon Associates. The Board of Directors critically evaluated the analyses and the conclusions reached.

The current per annum base and Committee fees outlined below are consistent with the recommendations of this review.

Macquarie and Macquarie Bank Fees

	Macquarie fees		Macquarie Bank fees		Total fees	
	Chairman	Member	Chairman	Member	Chairman	Member
Board	\$585,000	\$155,000	\$240,000	\$65,000	\$825,000	\$220,000
Board Risk Committee	\$70,000	\$30,000	N/A ²	N/A ²	\$70,000	\$30,000
Board Audit and Compliance Committee	\$70,000	\$30,000	N/A ²	N/A ²	\$70,000	\$30,000
Board Remuneration Committee	\$70,000	\$30,000	N/A ²	N/A ²	\$70,000	\$30,000
Board Corporate Governance Committee	\$45,000 ¹	\$18,000	N/A ²	N/A ²	\$45,000 ¹	\$18,000
Board Nominating Committee	N/A ³	\$8,000	N/A ²	N/A ²	N/A ³	\$8,000

¹ This role was filled by the Acting Non-Executive Chairman during Mr Clarke's absence (27 November 2008 to 30 August 2009) and was not separately remunerated for Committee responsibilities.

² Macquarie Bank Limited does not have separate committees, although Macquarie Group Limited's Audit and Compliance Committee and Remuneration Committee support both Boards.

³ No separate fee is paid for this role as it is filled by the Chairman and was filled by the Acting Chairman during Mr Clarke's absence.

Directors' Report – Remuneration Report for the financial year ended 31 March 2010 continued

Base and Committee fees are paid quarterly. Non-Executive Directors may elect to receive their remuneration, in part, in the form of superannuation contributions and, until recently, by way of Macquarie ordinary shares acquired via the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP), a mechanism for the Non-Executive Directors to acquire additional ordinary shares in Macquarie. The terms of the NEDSAP substantially replicate the terms of an equivalent plan that was operated by Macquarie Bank Limited, as approved at Macquarie Bank Limited's 1999 Annual General Meeting. Shares under the NEDSAP have been acquired on-market at prevailing market prices. New offers under the NEDSAP were suspended in 2009.

Information on the frequency of Board and Committee meetings is included on page 63 of the Directors' Report.

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

Macquarie's Non-Executive Directors are remunerated for their services from the maximum aggregate amount (currently \$3,000,000 per annum) approved by shareholders for that purpose. The current limit of \$3,000,000 was approved by Macquarie Bank Limited shareholders at Macquarie Bank's 2007 AGM. This same amount has been set in place for Macquarie Group Limited and applies on a consolidated basis. Although fees have been split between Macquarie Bank Limited and Macquarie Group Limited, the Board ensures that Non-Executive Director remuneration for Macquarie Group Limited and Macquarie Bank Limited taken together does not exceed this shareholder approved maximum aggregate amount.

It is expected that shareholder approval will be sought at the 2010 Annual General Meeting to increase this maximum aggregate amount to reflect the increase in the workload of Non-Executive Directors, to accommodate the appointment of an additional Non-Executive Board member in March 2010 and to allow for moderate future growth.

5.3 Minimum shareholding requirement for Non-Executive Directors

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

Under the minimum shareholding requirement, Non-Executive Directors are required to acquire and maintain, directly or indirectly, a holding of 4,000 Macquarie ordinary shares, which they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they maintain a holding of 6,000 Macquarie ordinary shares. Under Macquarie's Trading Policy, Non-Executive Directors are forbidden from hedging shares held to meet this minimum Macquarie shareholding requirement. Actual shareholdings are set out in Appendix 3 below.

Appendices: Key Management Personnel disclosures

Appendix 1: Key Management Personnel

The following persons were Voting Directors of Macquarie Group Limited for the period during the financial years ended 31 March 2010 and 31 March 2009, unless otherwise indicated:

Directors:		Changes during 2009 and 2010 (except as noted below)
Executive		
N.W. Moore ¹	Managing Director and Chief Executive Officer	Appointed to the Board on 22 February 2008 and as Managing Director and Chief Executive Officer on 24 May 2008
A.E. Moss, AO		Retired 24 May 2008
L.G. Cox, AO		Retired 29 July 2009
Non-Executive		
D.S. Clarke, AO	Non- Executive Chairman	On leave of absence from 27 November 2008 to 30 August 2009
M.J. Hawker		Appointed to the Board on 22 March 2010
P.M. Kirby		
C.B. Livingstone, AO		
H.K. McCann, AM		Acting Chairman in D.S. Clarke's absence
J.R. Niland, AC		
H.M. Nugent, AO		
P.H. Warne		Acting Chairman of the Board Risk Committee in D.S. Clarke's absence and was appointed Chairman of the Board Risk Committee on 27 August 2009

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of Macquarie and its controlled entities during the financial years ended 31 March 2010 and 31 March 2009, unless otherwise indicated:

Executives:

S.D. Allen ¹	Group Head, Risk Management Group (appointed 28 September 2009)
J.K. Burke	Former Joint Group Head, Macquarie Securities Group (retired on 26 February 2009)
M. Carapiet ¹	Group Head, Macquarie Capital
A.J. Downe ¹	Group Head, Fixed Income, Currencies and Commodities Group
R.S. Laidlaw ¹	Group Head, Macquarie Securities Group (appointed 10 June 2008)
P.J. Maher ¹	Group Head, Banking and Financial Services Group
N.R. Minogue	Former Group Head, Risk Management Group (retired 30 November 2009)
W.R. Sheppard ¹	Deputy Managing Director
G.C. Ward ¹	Chief Financial Officer
S. Wikramanayake ¹	Group Head, Macquarie Funds Group (appointed 10 June 2008)

¹ Member of Macquarie's Executive Committee as at 29 April 2010.

The remuneration and other related party disclosures included in the Remuneration Report have been prepared in accordance with the requirements of the *Corporations Act 2001* and in compliance with AASB 124 *Related Party Disclosures*.

For the purpose of these disclosures, all the individuals listed above have been determined to be Key Management Personnel, as defined by AASB 124 *Related Party Disclosures*. Macquarie's Non-Executive Directors are specifically required by the *Corporations Act 2001* to be included as Key Management Personnel. However, the Non-Executive Directors do not consider themselves as part of 'management'.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

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Appendix 2: Remuneration disclosures

Executive remuneration

The remuneration arrangements for all of the persons listed above as Executive Directors or Executives are described in section 2 above.

The individuals identified above as Key Management Personnel include the five highest remunerated Company Executives and Relevant Group Executives.

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures in the remuneration tables for the years ended 31 March 2010 and 31 March 2009, only include remuneration relating to the portion of the relevant periods that each individual was a Key Management Person.

The following factors impact the current year and prior year comparatives:

- Comparative data in the following remuneration table reflects the amounts disclosed in the 2009 Remuneration Report, i.e. the old remuneration arrangements. Under those arrangements, the whole of the profit share provision, including amounts held subject to restrictions, for each financial year was charged against earnings in that year, and was disclosed in the Executive remuneration disclosure for Key Management Personnel. As explained in section 2.3, under the revised arrangements, retained profit share is invested as a combination of Macquarie equity, and Macquarie-managed fund equity notionally invested under the Post-2009 DPS Plan. The portion of retained profit share that is delivered as Macquarie equity is recognised in earnings as a share based payment expense, spread over the vesting period, which is up to seven years for the most senior group. The portion that is delivered as Macquarie-managed fund equity is not accounted for as a share-based payment and the full amount is charged against earnings in the current year, consistent with prior years

- The current year also reflects the accounting adjustments required to transition to the revised remuneration arrangements including the treatment of 2009 profit share retention that was previously to be delivered as either cash or fully vested Macquarie shares, but is now delivered as Macquarie equity under the MEREP. The portion of Executive Directors' retained profit share relating to 2009 that is no longer to be paid in cash or delivered in fully vested Macquarie shares has been reversed in the current year with a benefit and recognised in earnings. The MEREP equity awards granted in relation to the 2009 profit share retention are accounted for as a share-based payment expensed over the vesting period from 1 April 2009 which is up to seven years for the most senior group
- Transitioned Amounts, as explained in section 2.3.1, have been reclassified in the current year from profit share liability to equity, and the discount to the fair value per MEREP equity award at grant date is accounted for as a share-based payment, expensed over the vesting period, being seven years for Executive Committee members
- While MEREP equity awards in respect of the current year's performance will be granted in the following financial year, Macquarie begins recognising an expense (based on an initial estimate) from 1 April of the current financial year in relation to these future grants. The expense is estimated using the Macquarie share price as at 31 March 2010 (and for PSUs, also incorporates a risk free interest rate of 5.75 per cent; expected life of four years; and a dividend yield of 3.47 per cent per annum). In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each MEREP award to be granted when granted, and will use this valuation for recognising the expense over the remaining vesting period.

As explained in section 2.3.3 above, DPS amounts retained under the DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/ distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors as additional remuneration and are included in the relevant remuneration disclosures below as part of "Long-Term Employee Benefits" (refer to the "Earnings on prior year restricted profit share" column in the tables on pages 108 to 109). When these amounts are negative, they are deducted from "Long-Term Employee Benefits" remuneration in the same column.

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

The table below highlights the underlying remuneration trend by adjusting the disclosed remuneration to exclude these earnings on retained DPS amounts for Key Management Personnel.

	2006 \$	2007 \$	2008 \$	2009 \$	2010 \$	2006-10 Increase/ (Decrease)
All Executive Key Management Personnel						
Total disclosed remuneration	137,230,470	207,074,381	124,746,718	11,364,969	45,164,524	(67%)
Less/(Add): Earnings/(Loss) on restricted profit share amounts	2,383,441	13,786,054	(15,447,287)	(25,345,764)	2,151,829	
Total underlying remuneration	134,847,029	193,288,327	140,194,005	36,710,733	43,012,695	(68%)

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

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Executive key management personnel remuneration disclosure

		Short-Term Employee Benefits		
		Salary (including superannuation) \$	Performance related remuneration (a) \$	Total short- term employee benefits \$
Executive Directors				
N.W. Moore	2010	518,820	4,681,736	5,200,556
	2009	517,611	2,120,641	2,638,252
Other Executives				
S.D. Allen (h)	2010	195,288	151,001	346,289
	2009	–	–	–
M. Carapiet	2010	384,311	2,886,191	3,270,502
	2009	383,415	2,544,769	2,928,184
A.J. Downe	2010	480,389	4,069,272	4,549,661
	2009	479,269	3,958,530	4,437,799
R.S. Laidlaw (i)	2010	384,311	3,157,615	3,541,926
	2009	310,695	1,374,645	1,685,340
P.J. Maher	2010	456,369	1,589,514	2,045,883
	2009	455,306	961,357	1,416,663
W.R. Sheppard	2010	518,820	1,135,132	1,653,952
	2009	517,611	282,752	800,363
G.C. Ward	2010	432,350	1,750,895	2,183,245
	2009	431,342	1,979,265	2,410,607
S. Wikramanayake (i)	2010	384,311	1,040,881	1,425,192
	2009	310,695	687,322	998,017
Former Executive Directors and Executives				
J.K. Burke (j)	2010	–	–	–
	2009	348,556	–	348,556
L.G. Cox (k)	2010	130,632	–	130,632
	2009	396,567	228,289	624,856
N.R. Minogue (l)	2010	289,823	709,354	999,177
	2009	431,342	1,555,137	1,986,479
A.E. Moss (m)	2010	–	–	–
	2009	100,748	1,515,978	1,616,726
Total Remuneration – Executive Key Management Personnel	2010	4,175,424	21,171,591	25,347,015
	2009	4,683,157	17,208,685	21,891,842

Long-Term Employee Benefits			Share Based Payments					Percentage of remuneration that consists of options and PSUs	
Restricted profit share (b)	Earnings on restricted profit share (c)	Total long-term employee benefits	Equity Awards including shares (d)	PSUs (e)	Options (f), (g)	Total share-based payments	Total remuneration		
\$	\$	\$	\$	\$	\$	\$	\$	%	
739,980	343,373	1,083,353	358,774	1,201,971	1,712,935	3,273,680	9,557,589	30.50	
942,507	(5,840,183)	(4,897,676)	1,649,387	-	900,793	2,550,180	290,756	309.81	
(46,610)	(10,845)	(57,455)	449,874	93,240	238,684	781,798	1,070,632	31.00	
-	-	-	-	-	-	-	-	-	
1,324,127	392,993	1,717,120	(181,230)	908,885	1,542,932	2,270,587	7,258,209	33.78	
848,256	(3,873,197)	(3,024,941)	848,256	-	472,382	1,320,638	1,223,881	38.60	
(488,520)	532,786	44,266	172,968	1,362,214	1,211,123	2,746,305	7,340,232	35.06	
1,319,510	(3,698,929)	(2,379,419)	1,319,510	-	334,093	1,653,603	3,711,983	9.00	
(68,017)	236,649	168,632	445,182	735,675	903,519	2,084,376	5,794,934	28.29	
458,215	(1,145,138)	(686,923)	458,215	-	787,201	1,245,416	2,243,833	35.08	
(58,531)	37,819	(20,712)	250,053	408,361	324,639	983,053	3,008,224	24.37	
320,452	(887,238)	(566,786)	320,452	-	172,891	493,343	1,343,220	12.87	
191,737	85,716	277,453	290,170	207,760	440,288	938,218	2,869,623	22.58	
94,251	(1,842,620)	(1,748,369)	94,251	-	175,241	269,492	(678,514)	(25.83)	
98,826	52,658	151,484	61,337	644,976	354,464	1,060,777	3,395,506	29.43	
659,755	(794,746)	(134,991)	659,755	-	187,564	847,319	3,122,935	6.01	
665,182	341,575	1,006,757	9,823	314,453	504,886	829,162	3,261,111	25.12	
229,107	(711,775)	(482,668)	229,107	-	418,713	647,820	1,163,169	36.00	
-	-	-	-	-	-	-	-	-	
-	(499,623)	(499,623)	-	-	(378,324)	(378,324)	(529,391)	71.46	
-	7,043	7,043	-	-	(57,082)	(57,082)	80,593	(70.83)	
57,072	(200,085)	(143,013)	-	-	13,893	13,893	495,736	2.80	
709,354	132,062	841,416	-	-	(312,722)	(312,722)	1,527,871	(20.47)	
518,379	(1,100,155)	(581,776)	518,379	-	133,538	651,917	2,056,620	6.49	
-	-	-	-	-	-	-	-	-	
-	(4,752,075)	(4,752,075)	-	-	56,090	56,090	(3,079,259)	(1.82)	
3,067,528	2,151,829	5,219,357	1,856,951	5,877,535	6,863,666	14,598,152	45,164,524		
5,447,504	(25,345,764)	(19,898,260)	6,097,312	-	3,274,075	9,371,387	11,364,969		

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

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Notes on elements of executive remuneration

(a) Performance related remuneration represents the current portion of each individual's profit share allocation in relation to the reporting period. For 2010, these amounts also include an adjustment to reflect the difference between the percentage of 2009 profit share that was reported as current in the 2009 Executive remuneration disclosure and the actual percentage of 2009 profit share that is current, as per the revised remuneration arrangements.

For 2009, in the case of Mr A.E. Moss, the amount included in this column in the table above also includes the related restricted profit share amounts (refer (b) below), which was paid within 12 months of the end of the reporting period, in accordance with the requirements of AASB 124 *Related Party Disclosures*.

(b) For 2010, this amount represents:

- 2010 retained profit share notionally invested in Macquarie-managed fund equity
- An adjustment to reflect the difference between the percentage of 2009 retained profit share notionally invested in Macquarie-managed fund equity as reported in the 2009 Executive remuneration disclosure and the actual percentage of 2009 retained profit share notionally invested in Macquarie-managed fund equity, as per the revised remuneration arrangements.

For 2009, this amount represents retained profit share notionally invested in Macquarie-managed fund equity as per the old remuneration arrangements. For 2009, in the case of Mr A.E. Moss (because he retired), the retained amount is included within "Performance related remuneration" as it was paid within 12 months of the end of the reporting period.

(c) This is the notional earnings/(loss) on prior year restricted profit share allocations described on pages 106 to 107 in this Appendix.

(d) For 2009, this was the amount of the current year profit share allocation, which is allocated to invest in Macquarie ordinary shares under the Executive Committee Share Acquisition Plan. For 2010, this amount represents:

- the current year amortised amount in respect of both 2009 and 2010 retained profit share as calculated on the basis as described in note 1 (xx) Share based payments to the 2010 Financial Statements
- the write back of 100 per cent of 2009 profit share which was allocated to invest in fully vested Macquarie ordinary shares as described in section 2.3.3. This is an adjustment because this is now being delivered as Macquarie equity under MEREP, which is expensed over the vesting period from 1 April 2009 which is up to seven years for the most senior group
- the current year amortisation, as calculated on the basis as described in note 1 (xx) Share based payments to the 2010 Financial Statements, in respect of the discount to the fair value per share at grant date for Transitioned Amounts, as discussed in section 2.3.1.

For retained profit share relating to 2009 invested in the MEREP and pre-2009 profit share transitioned to the MEREP, the conversion price was publicly announced by Macquarie on 1 May 2009 to be the volume weighted average price (VWAP) from 4 May 2009 up to and including the date of the 2009 AGM on 29 July 2009, being \$36.36.

Equity awards granted in respect of the 2009 year are measured for accounting purposes on 17 December 2009, being the date that shareholders approved the MEREP, using the closing price of Macquarie shares traded on the ASX on that day, being \$46.35.

(e) This amount has been calculated on the basis as described in note 1 (xx) Share based payments to the 2010 Financial Statements and is in respect of PSUs granted in respect of both the 2009 and 2010 performance years. PSU grants for each individual have been measured at their grant date based on each grants fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of PSUs granted.

-
- (f) This amount has been calculated on the basis as described in note 1 (xx) Share based payments to the 2010 Financial Statements. Prior option grants for each individual have been measured at their grant dates based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of options granted, regardless of whether the options are in or out-of-the-money. For 2010, the amount is based on options granted in August 2006 (exercise price of \$61.79), August 2007 (exercise price of \$71.41) and August 2008 (exercise price of \$53.91) which are all currently out-of-the-money.

If an option lapses in a reporting period, amounts previously recognised as remuneration in relation to the lapsed options are deducted from remuneration in the reporting period. In the case of Mr Cox, 87,052 options lapsed in the current year when he retired from the Board on 29 July 2009. In the case of Mr Minogue, 9,083 options lapsed in the current year when he retired from executive responsibilities on 30 November 2009. In the case of Mr Burke, 108,334 unvested options lapsed in the 2009 financial year when he retired from executive responsibilities on 26 February 2009. The reversal of the amounts previously recognised in relation to these options exceeded the amounts recognised in relation to their options which vested during the year, resulting in a negative balance in the table above for 2010 for Mr Cox and Mr Minogue and for 2009 for Mr Burke.

- (g) Performance hurdles attached to the options issued to the Executive Committee and Executive Voting Directors allow for options to become exercisable upon vesting only when Macquarie's average annual ROE for the three previous financial years is above the 65th percentile, as further discussed in section 2.4.2. Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2009 were not achieved and therefore the options did not vest. The related expense previously recognised for these option grants was reversed in 2009 and result in a reduction in total 2009 remuneration for the impacted individuals.

Notes on individuals

- (h) Mr S.D. Allen was appointed to the Executive Committee on 28 September 2009.
- (i) Mr R.S. Laidlaw and Ms S. Wikramanayake were appointed to the Executive Committee on 10 June 2008.
- (j) Mr J.K. Burke retired on 26 February 2009.
- (k) Mr L.G. Cox retired from the Board on 29 July 2009.
- (l) Mr N.R. Minogue retired from the Executive Committee on 30 November 2009.
- (m) Mr A.E. Moss retired on 24 May 2008. Mr Moss's total remuneration for 2009 included a final profit share allocation for the period 1 April 2008 up to the date of his retirement on 24 May 2008, which was paid in November 2008.

For each of the persons named in the tables above, the amounts of their remuneration for the reporting period that were not related to performance are the amounts in the columns headed 'Salary (including superannuation)' and 'Earnings on prior year restricted profit share'. All other remuneration was performance based.

As is evident from the tables on pages 108 to 109, the majority of the remuneration for the named Group executives is performance based (ranging from 81 per cent to 94 per cent for individuals who were Executive Committee members during the year ended 31 March 2010, excluding the impact of notional earnings on retained amounts). This is consistent with the comments previously made that the effect of Macquarie's profit sharing mechanism is to provide substantial incentives in relation to superior performance, but low or no participation for less satisfactory performance. The mechanism provides significant alignment of their interests with those of shareholders.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 5.1 above.

		Directors' Fees \$	Other Benefits (a) \$	Total Compensation \$
D.S. Clarke (b)	2010	570,793	–	570,793
	2009	567,083	33,000	600,083
M.J. Hawker (c)	2010	6,720	–	6,720
	2009	–	–	–
P.M. Kirby	2010	291,250	–	291,250
	2009	271,000	–	271,000
C.B. Livingstone	2010	321,250	7,700	328,950
	2009	298,500	16,350	314,850
H.K. McCann (d)	2010	514,489	–	514,489
	2009	448,217	–	448,217
J.R. Niland	2010	290,000	–	290,000
	2009	266,000	–	266,000
H.M. Nugent	2010	321,250	29,250	350,500
	2009	296,000	–	296,000
P.H. Warne (e)	2010	336,500	–	336,500
	2009	284,150	–	284,150
Total Remuneration	2010	2,652,252	36,950	2,689,202
– Non-Executive Key Management Personnel	2009	2,430,950	49,350	2,480,300

(a) Other benefits for Non-Executive Directors include due diligence committee fees paid to Ms Livingstone of \$7,700 (2009: \$16,350) and BRC related per diem fees for Dr Nugent of \$29,250.

For the period that Mr Clarke was Non-Executive Chairman, Mr Clarke was entitled to the use of an office and administrative support. The prior year amount of \$33,000 is an estimate of the portion of the cost of these services which may have been used by the Chairman for other purposes.

(b) Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

(c) Mr Hawker was appointed to the Board on 22 March 2010.

(d) Mr McCann was appointed Acting Chairman in Mr Clarke's absence (from 27 November 2008 to 30 August 2009).

(e) Mr Warne was appointed Acting Chairman of the Board Risk Committee in Mr Clarke's absence (from 27 November 2008) and was appointed Chairman on 27 August 2009.

Appendix 3: Share and option disclosures

Shareholding of Key Management Personnel and their related parties

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

For the year ended 31 March 2010

Name and position	Number of shares held at 1 April 2009 (a)	Shares issued on exercise of options	Other changes (b)	Number of shares held at 31 March 2010 (c)
Executive Directors				
N.W. Moore	1,197,411	48,334	–	1,245,745
Non-Executive Directors				
D.S. Clarke (d)	704,914	–	(431,197)	273,717
M.J. Hawker (e)	4,103	–	–	4,103
P.M. Kirby	18,996	–	4,202	23,198
C.B. Livingstone	8,980	–	3,020	12,000
H.K. McCann	11,359	–	2,126	13,485
J.R. Niland	9,559	–	563	10,122
H.M. Nugent	20,613	–	563	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen (f)	38,025	–	–	38,025
M. Carapiet	680,750	–	(93,134)	587,616
A.J. Downe	124,102	–	(45,224)	78,878
R.S. Laidlaw	38,475	–	560	39,035
P.J. Maher	106,175	–	(32,000)	74,175
W.R. Sheppard	267,790	–	(18,481)	249,309
G.C. Ward	15,345	13,334	(13,334)	15,345
S. Wikramanayake	326,867	–	–	326,867
Former				
L.G. Cox (g)	269,812	–	–	269,812
N.R. Minogue (h)	136,620	–	–	136,620

(a) Or date of appointment if later.

(b) Includes on-market acquisitions and disposals.

(c) Or date of retirement if earlier.

(d) Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

(e) Mr Hawker was appointed to the Board on 22 March 2010. The opening balance on 1 April 2009 represents holdings at the date of appointment.

(f) Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

(g) Mr Cox retired from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of retirement.

(h) Mr Minogue retired from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of retirement.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

Shares

Shareholding of Key Management Personnel and their related parties continued

For the year ended 31 March 2009

Name and position	Number of shares held at 1 April 2008 (a)	Shares issued on exercise of options	Other changes (b)	Number of shares held at 31 March 2009 (c)
Executive Directors				
L.G. Cox	269,812	–	–	269,812
N.W. Moore	1,030,510	–	166,901	1,197,411
Non-Executive Directors				
D.S. Clarke (d)	704,868	–	46	704,914
P.M. Kirby	9,772	–	9,224	18,996
C.B. Livingstone	8,432	–	548	8,980
H.K. McCann	11,359	–	–	11,359
J.R. Niland	7,959	–	1,600	9,559
H.M. Nugent	20,613	–	–	20,613
P.H. Warne	9,077	–	6,744	15,821
Executives				
M. Carapiet	531,274	32,500	116,976	680,750
A.J. Downe	176,036	–	(51,934)	124,102
R.S. Laidlaw (e)	28,124	10,351	–	38,475
P.J. Maher	125,323	–	(19,148)	106,175
N.R. Minogue	157,312	–	(20,692)	136,620
W.R. Sheppard	261,313	–	6,477	267,790
G.C. Ward	56,620	–	(41,275)	15,345
S. Wikramanayake (e)	252,546	9,300	65,021	326,867
Former				
A.E. Moss (f)	404,236	–	–	404,236
J.K. Burke (g)	31,657	–	30,902	62,559

(a) Or date of appointment if later.

(b) Includes on-market acquisitions and disposals.

(c) Or date of retirement if earlier.

(d) Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

(e) Mr Laidlaw and Ms Wikramanayake were appointed to the Executive Committee on 10 June 2008. The opening balance on 1 April 2008 represents holdings at the date of appointment. Movements are from this date.

(f) Mr Moss retired from the Board and the Executive Committee on 24 May 2008. Balance at 31 March 2009 represents holdings at date of retirement.

(g) Mr Burke retired from the Executive Committee on 26 February 2009. Balance at 31 March 2009 represents holdings at date of retirement.

MEREP RSU Awards of Key Management Personnel and their related parties

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

For the year ended 31 March 2010

Name and position	Number of RSU awards held at 1 April 2009 (a)	Number of RSU awards granted during the financial year (b)	RSU awards exercised during the financial year	Number of RSU awards held at 31 March 2010 (c)	Number of RSU awards vested during the financial year	Number of RSU awards vested at 31 March 2010 (c)	Value of RSU awards granted as part of remuneration and that vested during the financial year \$
Executive Directors							
N.W. Moore	–	466,460	–	466,460	–	–	–
Non-Executive Directors							
D.S. Clarke	–	–	–	–	–	–	–
M.J. Hawker (d)	–	–	–	–	–	–	–
P.M. Kirby	–	–	–	–	–	–	–
C.B. Livingstone	–	–	–	–	–	–	–
H.K. McCann	–	–	–	–	–	–	–
J.R. Niland	–	–	–	–	–	–	–
H.M. Nugent	–	–	–	–	–	–	–
P.H. Warne	–	–	–	–	–	–	–
Executives							
S.D. Allen (e)	–	113,565	–	113,565	–	–	–
M. Carapiet	–	34,661	–	34,661	–	–	–
A.J. Downe	–	80,877	–	80,877	–	–	–
R.S. Laidlaw	–	126,778	–	126,778	–	–	–
P.J. Maher	–	88,468	–	88,468	–	–	–
W.R. Sheppard	–	108,729	–	108,729	–	–	–
G.C. Ward	–	92,688	–	92,688	–	–	–
S. Wikramanayake (f)	–	69,028	–	69,028	–	–	–
Former							
L.G. Cox (g)	–	–	–	–	–	–	–
N.R. Minogue (h)	–	–	–	–	–	–	–

(a) Or date of appointment if later.

(b) As discussed in note 1 (xx) Share based payments to the Financial Statements, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, RSUs disclosed as granted above relate to 2009 and include pre-2009 in relation to transition awards.

(c) Or date of retirement if earlier.

(d) Mr Hawker was appointed to the Board on 22 March 2010. The opening balance on 1 April 2009 represents holdings at the date of appointment.

(e) Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment. 88,406 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying Macquarie shares, however these awards have the same economic benefits as an RSU award held in the MEREP.

(f) 49,330 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying Macquarie shares however these awards have the same economic benefits as an RSU held in the MEREP.

(g) Mr Cox retired from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of retirement.

(h) Mr Minogue retired from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of retirement.

There were no MEREP RSU awards granted during the 12 months to 31 March 2009.

Directors' Report – Remuneration Report for the financial year ended 31 March 2010 continued

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

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

For the year ended 31 March 2010

Name and position	Number of PSU awards held at 1 April 2009 (a)	PSU awards granted during the financial year (b)	PSU awards exercised during the financial year	Number of PSU awards held at 31 March 2010 (c)	Number of PSU awards vested during the financial year	Number of PSU awards vested at 31 March 2010 (c)	Value of PSUs granted as part of remuneration and that are exercised or sold during the financial year \$
Executive Directors							
N.W. Moore	–	38,300	–	38,300	–	–	–
Non-Executive Directors							
D.S. Clarke	–	–	–	–	–	–	–
M.J. Hawker (d)	–	–	–	–	–	–	–
P.M. Kirby	–	–	–	–	–	–	–
C.B. Livingstone	–	–	–	–	–	–	–
H.K. McCann	–	–	–	–	–	–	–
J.R. Niland	–	–	–	–	–	–	–
H.M. Nugent	–	–	–	–	–	–	–
P.H. Warne	–	–	–	–	–	–	–
Executives							
S.D. Allen (e)	–	–	–	–	–	–	–
M. Carapiet	–	34,300	–	34,300	–	–	–
A.J. Downe	–	53,500	–	53,500	–	–	–
R.S. Laidlaw	–	20,700	–	20,700	–	–	–
P.J. Maher	–	13,000	–	13,000	–	–	–
W.R. Sheppard	–	3,900	–	3,900	–	–	–
G.C. Ward	–	26,700	–	26,700	–	–	–
S. Wikramanayake	–	11,500	–	11,500	–	–	–
Former							
L.G. Cox (f)	–	–	–	–	–	–	–
N.R. Minogue (g)	–	–	–	–	–	–	–

(a) Or date of appointment if later.

(b) As discussed in note 1 (xx) - Share based payments to the Financial Statements, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, PSUs disclosed as granted above relate to 2009.

(c) Or date of retirement if earlier.

(d) Mr Hawker was appointed to the Board on 22 March 2010. The opening balance on 1 April 2009 represents holdings at the date of appointment.

(e) Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

(f) Mr Cox retired from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of retirement.

(g) Mr Minogue retired from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of retirement.

There were no MEREP PSU awards granted during the 12 months to 31 March 2009.

Details of PSUs granted and their fair value at grant date
For the year ended 31 March 2010

Name and position	Date PSUs granted ¹	Number of PSUs granted	PSUs exercise price \$	Fair value at grant date ² \$	Value of PSUs granted as part of remuneration during the year \$	Date first tranche can be exercised	Expiry date
Executive Directors							
N.W. Moore	17 December 2009	38,300	-	42.34	1,621,622	1 July 2011	4 March 2018
Executives							
M. Carapiet	17 December 2009	34,300	-	42.34	1,452,262	1 July 2011	4 March 2018
A.J. Downe	17 December 2009	53,500	-	42.34	2,265,190	1 July 2011	4 March 2018
R.S. Laidlaw	17 December 2009	20,700	-	42.34	876,438	1 July 2011	4 March 2018
P.J. Maher	17 December 2009	13,000	-	42.34	550,420	1 July 2011	4 March 2018
W.R. Sheppard	17 December 2009	3,900	-	42.34	165,126	1 July 2011	4 March 2018
G.C. Ward	17 December 2009	26,700	-	42.34	1,130,478	1 July 2011	4 March 2018
S. Wikramanayake	17 December 2009	11,500	-	42.34	486,910	1 July 2011	4 March 2018

¹ This is the grant date for accounting purposes.

² Refer to notes on fair value below.

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

The 2009 PSU allocation has been determined based on a valuation of a PSU at 17 December 2009, being the day on which MEREP was approved by shareholders. The fair value at this date has been estimated using a discounted cash flow method. For the purpose of calculating the PSU-related compensation in Appendix 2 above, Macquarie has assumed that all PSUs will vest, except where it is known that a PSU lapsed during the period.

The following key assumptions were adopted in estimating the value of the PSUs granted in respect of the 2009 year:

- risk free interest rate: 5.24 per cent per annum
- expected life of PSU: 4 years
- forecast dividend yield: 3.47 per cent per annum

There were no PSUs granted during the 12 months to 31 March 2009.

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Options

Option holdings of Key Management Personnel and their related parties

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

For the year ended 31 March 2010

Name and position	Number of options held at 1 April 2009	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met	Other changes	Number of options held able to be exercised at 31 March 2010	Number of options vested during the financial year	Number of options vested at 31 March 2010	Value of options granted as part of remuneration and that are exercised or sold during the financial year \$
	(a)		(b)	(c)	(d)		(d)	(e)
Executive Directors								
N.W. Moore	776,634	(48,334)	(104,799)	–	623,501	56,668	223,333	595,475
Non-Executive Directors								
D.S. Clarke	–	–	–	–	–	–	–	–
M.J. Hawker (f)	–	–	–	–	–	–	–	–
P.M. Kirby	–	–	–	–	–	–	–	–
C.B. Livingstone	–	–	–	–	–	–	–	–
H.K. McCann	–	–	–	–	–	–	–	–
J.R. Niland	–	–	–	–	–	–	–	–
H.M. Nugent	–	–	–	–	–	–	–	–
P.H. Warne	–	–	–	–	–	–	–	–
Executives								
S.D. Allen (g)	218,725	–	–	–	218,725	–	90,303	–
M. Carapiet	550,567	–	(89,786)	–	460,781	40,604	128,993	–
A.J. Downe	426,334	–	(56,666)	(28,334)	341,334	16,668	78,333	97,752
R.S. Laidlaw	372,374	–	–	(24,449)	347,925	70,974	133,600	75,792
P.J. Maher	135,001	–	(18,333)	(13,334)	103,334	8,334	26,667	115,739
W.R. Sheppard	224,334	–	(30,000)	(33,334)	161,000	16,668	65,000	66,668
G.C. Ward	156,834	(13,334)	(20,000)	–	123,500	10,000	40,000	90,538
S. Wikramanayake	178,275	–	–	–	178,275	36,591	58,119	–
Former								
L.G. Cox (h)	32,265	–	(6,081)	(26,184)	–	–	–	–
N.R. Minogue (i)	170,834	–	(23,332)	(100,836)	46,666	11,668	46,666	42,535

(a) Or date of appointment if later.

(b) Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2009 were not achieved and therefore the options did not vest. These options were not exercisable and the related expense previously recognised on these option grants were reversed in the prior year. The value of those options that lapsed calculated on 1 July 2009 was \$nil.

(c) Includes vested options sold under facility provided by an external party, unless otherwise noted.

(d) Or date of retirement if earlier.

(e) Includes options that were granted as part of remuneration in prior financial years.

(f) Mr Hawker was appointed to the Board on 22 March 2010. The opening balance on 1 April 2009 represents holdings at the date of appointment.

(g) Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance at 1 April 2009 represents holdings at date of appointment.

(h) Mr Cox retired from the Board on 29 July 2009, whereupon 87,052 unvested options lapsed. Balance at 31 March 2010 represents holdings at date of retirement.

(i) Mr Minogue retired from the Executive Committee on 30 November 2009, whereupon 9,083 unvested options lapsed. Balance at 31 March 2010 represents holdings at date of retirement.

Options

Option holdings of Key Management Personnel and their related parties continued

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

For the year ended 31 March 2009

Name and position	Number of options held at 1 April 2008	Options granted during the financial year	Options exercised during the financial year	Other changes	Number of options held at 31 March 2009	Number of options vested during the financial year	Number of options vested at 31 March 2009	Value of options granted as part of remuneration and that are exercised or sold during the financial year \$
	(a)			(b)	(c)		(c)	(d)
Executive Directors								
L.G. Cox	32,265	–	–	–	32,265	7,754	15,227	–
N.W. Moore	532,734	243,900	–	–	776,634	158,333	214,999	–
Non-Executive Directors								
D.S. Clarke	–	–	–	–	–	–	–	–
P.M. Kirby	–	–	–	–	–	–	–	–
C.B. Livingstone	–	–	–	–	–	–	–	–
H.K. McCann	–	–	–	–	–	–	–	–
J.R. Niland	–	–	–	–	–	–	–	–
H.M. Nugent	–	–	–	–	–	–	–	–
P.H. Warne	–	–	–	–	–	–	–	–
Executives								
M. Carapiet	383,067	200,000	(32,500)	–	550,567	120,889	88,389	625,300
A.J. Downe	248,334	178,000	–	–	426,334	73,333	89,999	–
R.S. Laidlaw (e)	247,725	135,000	(10,351)	–	372,374	62,586	87,075	137,151
P.J. Maher	85,001	50,000	–	–	135,001	31,667	31,667	–
N.R. Minogue	118,334	52,500	–	–	170,834	36,666	48,332	–
W.R. Sheppard	193,334	51,000	–	(20,000)	224,334	48,334	81,666	432,800
G.C. Ward	103,334	53,500	–	–	156,834	33,334	43,334	–
S. Wikramanayake (e)	107,575	80,000	(9,300)	–	178,275	30,828	21,528	128,247
Former								
A.E. Moss (f)	670,400	–	–	–	670,400	–	170,400	–
J.K. Burke (g)	224,678	–	–	(173,012)	51,666	70,000	51,666	1,304,555

(a) Or date of appointment if later.

(b) Includes vested options sold under facility provided by an external party, unless otherwise noted.

(c) Or date of retirement if earlier.

(d) Includes options that were granted as part of remuneration in prior financial years.

(e) Mr Laidlaw and Ms Wikramanayake were appointed to the Executive Committee on 10 June 2008. The opening balance at 1 April 2008 represents holdings at date of appointment. Movements are from this date.

(f) Mr Moss retired from the Board and the Executive Committee on 24 May 2008.

(g) Mr Burke retired from the Executive Committee on 26 February 2009, whereupon 108,334 unvested options lapsed.

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Details of options granted and their fair value at grant date

There were no options issued to Key Management Personnel during the current financial year.

For the year ended 31 March 2009

Name and position	Date options granted	Number of options granted	Options exercise price \$	Fair value at grant date ¹ \$	Value of options granted as part of remuneration during the year \$	Date first tranche can be exercised	Expiry date
Executive Directors							
N.W. Moore	15 August 2008	243,900	53.91	10.74	2,619,486	1 July 2010	15 August 2013
Executives							
M. Carapiet	15 August 2008	200,000	53.91	10.74	2,148,000	1 July 2010	15 August 2013
A.J. Downe	15 August 2008	178,000	53.91	10.74	1,911,720	1 July 2010	15 August 2013
R.S. Laidlaw	15 August 2008	135,000	53.91	10.74	1,449,900	1 July 2010	15 August 2013
P.J. Maher	15 August 2008	50,000	53.91	10.74	537,000	1 July 2010	15 August 2013
N.R. Minogue	15 August 2008	52,500	53.91	10.74	563,850	1 July 2010	15 August 2013
W.R. Sheppard	15 August 2008	51,000	53.91	10.74	547,740	1 July 2010	15 August 2013
G.C. Ward	15 August 2008	53,500	53.91	10.74	574,590	1 July 2010	15 August 2013
S. Wikramanayake	15 August 2008	80,000	53.91	10.74	859,200	1 July 2010	15 August 2013

¹ Refer to notes on fair value below.

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

Performance hurdles attached to the options issued to the Key Management Personnel are not taken into account when determining the fair value of the option at grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest. For the purpose of calculating the options-related compensation in Appendix 2 above, Macquarie has assumed that all options will vest, except where it is known that an option lapsed during the period.

The fair value of each option is estimated on the date of grant using a trinomial option pricing framework. The following key assumptions were adopted for grants made in 2009:

- risk free interest rate: 6.77 per cent (weighted average)
- expected life of options: four years
- volatility of share price: 24 per cent per annum
- dividend yield: 3.47 per cent per annum

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

For the year ended 31 March 2010

Name and position	Number of options exercised during the financial year (a)	Number of shares issued on exercise of options	Exercise price paid in full per share \$
Executives			
N.W. Moore	48,334	48,334	32.26
G.C. Ward	13,334	13,334	33.11

For the year ended 31 March 2009

Name and position	Number of options exercised during the financial year (a)	Number of shares issued on exercise of options	Exercise price paid in full per share \$
Executives			
M. Carapiet	32,500	32,500	33.11
R.S. Laidlaw	10,351	10,351	32.75
S. Wikramanayake	9,300	9,300	32.26

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Appendix 4: Loan disclosures

Loans to Key Management Personnel

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

		Opening balance at 1 April	Interest charged	Write-down	Closing balance at 31 March	Number in group 31 March
		\$'000	\$'000	\$'000	\$'000	
Total for Key Management Personnel and their related parties	2010	42,861	3,045	–	31,691	11
	2009	62,518	4,512	–	42,861	10
Total for Key Management Personnel	2010	22,729	863	–	12,422	5
	2009	44,506	2,504	–	22,729	5

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

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

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

For the year ended 31 March 2010

Name and position	Balance at 1 April 2009	Interest charged (a)	Write-down	Balance at 31 March 2010	Highest in period
	\$'000	\$'000	\$'000	\$'000	\$'000
Executive Directors					
N.M. Moore	5,313	330	–	5,274	5,313
Non-Executive Directors					
D.S. Clarke (b)	37,290	2,700	–	26,160	38,975
Executives					
R.S. Laidlaw	238	14	–	238	238

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

(b) Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

Key Management Personnel including their related parties with loans above \$100,000 at any time during the financial year (continued)

For the year ended 31 March 2009

Name and position	Balance at 1 April 2008 (a) \$'000	Interest charged (b) \$'000	Write-down \$'000	Balance at 31 March 2009 \$'000	Highest in period \$'000
Executive Directors					
N.M. Moore	12,259	376	–	5,313	12,570
Non-Executive Directors					
D.S. Clarke (c)	34,826	3,352	–	37,290	37,798
Executives					
A.J Downe	1,847	105	–	–	1,847
R.S. Laidlaw (d)	238	10	–	238	238
P.J. Maher	4,912	499	–	20	5,572
N.R. Minogue	4,249	42	–	–	4,339
G.C. Ward	4,406	127	–	–	4,406

(a) Or date of appointment if later.

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

(c) Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

(d) Mr Laidlaw was appointed to the Executive Committee on 10 June 2008. The balance at 1 April 2008 represents holdings at date of appointment. Movements are from this date.

Directors' Report – Remuneration Report

for the financial year ended 31 March 2010

continued

Appendix 5: Other disclosures

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

The following Key Management Personnel have acquired Infrastructure Bonds and similar products from controlled entities within Macquarie which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to a legal right of set-off and as such are not recognised for financial reporting purposes. The only amounts recognised by the economic entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	10,123	14,538

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

Executive Directors

N.W. Moore

Non-Executive Directors

P.M. Kirby

Executives

S.D. Allen (2010 only), M. Carapiet, A.J. Downe, R.S. Laidlaw, P.J. Maher, W.R. Sheppard, G.C. Ward and S. Wikramanayake (2010 only)

Former

L.G. Cox, N.R. Minogue

The following Key Management Personnel (including related parties) have entered into zero cost collar transactions with Macquarie and other non related entities in respect of Macquarie ordinary shares. This has the effect of acquiring cash-settled put options against movements in the Macquarie share price below current levels and disposing of the benefit of any share price movement above the nominated level.

Name and position	Description	Number of shares 2010	Number of shares 2009
Non-Executive Directors			
D.S. Clarke	Maturing May 2009	–	361,163
	Maturing August 2009	–	25,196
	Maturing June 2010	213,517	213,517
Executives			
A.J. Downe	Maturing July 2010	21,905	–

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

This is the end of the Remuneration Report.

Directors' Report

for the financial year ended 31 March 2010

continued

Voting Directors' equity participation

At 29 April 2010, the Voting Directors have relevant interests, as notified by the Voting Directors to the ASX in accordance with the *Corporations Act 2001* (Cth) (the Act), in the following shares and share options of Macquarie:

	Fully paid ordinary shares held at 29 April 2010	Share options held at 29 April 2010 ¹	RSUs held in the MEREP ²	PSUs held in the MEREP ²
D.S. Clarke	272,576	-	-	-
N.W. Moore	1,245,745	728,300	466,460	38,300
M.J. Hawker	4,103	-	-	-
P.M. Kirby	23,198	-	-	-
C.B. Livingstone	12,000	-	-	-
H.K. McCann	13,485	-	-	-
J.R. Niland	10,122	-	-	-
H.M. Nugent	13,006	-	-	-
P.H. Warne	15,821	-	-	-

¹ These share options were issued pursuant to the Macquarie Group Employee Share Option Plan and are subject to the exercise conditions applying to grants of options to Executive Directors, as described in note 36 – Employee equity participation.

² These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan and are subject to the vesting, forfeiture and other conditions applying to grants of awards to Executive Directors, as described in note 36 – Employee equity participation.

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

The relevant interests of Voting Directors as at 29 April 2010 in managed investment schemes made available by subsidiaries of Macquarie Group, other disclosable interests and contracts that confer a right to call for or deliver shares in Macquarie Group are listed on page 129.

Directors' and Officers' indemnification and insurance

Under Macquarie's Constitution, Macquarie indemnifies all past and present Directors and Secretaries of Macquarie (including at this time the Voting Directors named in this report and the Secretaries), and its wholly-owned subsidiaries, against certain liabilities and costs incurred by them in their respective capacities. The indemnity covers the following liabilities and legal costs (subject to the exclusions described below):

- every liability incurred by the person in their respective capacity
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which the person becomes involved because of their respective capacity
- legal costs incurred by the person in good faith in obtaining legal advice on issues relevant to the performance and discharge of their duties as an officer of Macquarie or of a wholly-owned subsidiary of Macquarie, if that has been approved in accordance with Macquarie policy.

This indemnity does not apply to the extent that:

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

Macquarie has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (Deed) with each of the Voting Directors. Under the Deed, Macquarie, *inter alia*, agrees to:

- indemnify the Voting Director to the full extent of the indemnity given in relation to officers of Macquarie under its Constitution in force from time to time
- take out and maintain an insurance policy against liabilities incurred by the Voting Director acting as an officer of Macquarie or a wholly-owned subsidiary of Macquarie, or acting as an officer of another company at the specific request of Macquarie or a wholly-owned subsidiary of Macquarie. The insurance policy must be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie's position. The insurance policy must also be maintained for seven years after the Voting Director ceases to be a Voting Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings)
- grant access to the Voting Director to all company papers (including Board papers and other documents) of Macquarie or a subsidiary.

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

Directors' Report

for the financial year ended 31 March 2010

continued

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

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

Directors' interests and benefits

A number of Directors have given written notices stating that they hold office in specified companies and accordingly are regarded as having a relevant interest in any contract or proposed contract that may be made between Macquarie and any of these companies. Transactions between Macquarie and any of these companies are on normal commercial terms and conditions.

Other than any benefit that may have been derived from loans and other financial instrument transactions provided by and to Macquarie or a related entity and any amounts received in respect of previously accrued remuneration, no Director has, during the financial year and the period to the date of this report, become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in this Report, or the fixed salary of a full-time employee of Macquarie or of a related entity) by reason of a contract made by Macquarie or a related entity with the Director, or with a firm of which he/she is a member, or with an entity in which he/she has a substantial financial interest.

Share options

Information on Macquarie's share option scheme, options granted and shares issued as a result of the exercise of options during or since the end of the financial year is contained in note 36 to the full financial report - Employee equity participation.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any other corporation. No unissued shares, other than those referred to above, are under option as at the date of this report.

Voting Directors' other relevant interests

The relevant interests of Voting Directors as at 29 April 2010 in managed investment schemes made available by subsidiaries of Macquarie and other disclosable relevant interests are listed in the table below.

Name and position	Direct interests	Indirect interest
Non-Executive Voting Directors		
D.S. Clarke		– 213,517 Cash Settled Put Options ¹
Executive Voting Directors		
N.W. Moore	– 483,674 Macquarie Global Infrastructure Fund (B) units	– 200,000 Macquarie Technology Fund – 1A ordinary shares
	– 5,000,000 Macquarie Reflexion Trust June 2006 units	– 64,177 Macquarie Global Infrastructure Fund (B) units
	– 50,000 Macquarie Nine Film & Television Investment Fund ordinary shares	– 362,382 Macquarie Global Infrastructure Fund III (B) units
	– 50 Macquarie Timber Land Trust 2004 units	– 201,659 Macquarie Cash Management Trust units
	– 75 Macquarie Timber Land Trust 2006 units	
	– 1,637,618 Macquarie Global Infrastructure Fund III (B) units	
Independent Voting Directors		
M.J. Hawker	–	– 1,000 Macquarie Convertible Preference Securities
		– 16,893 Macquarie Wrap Cash Account units
P.M. Kirby	–	–
C.B. Livingstone	–	– 18,813 Charter Hall Retail REIT units
H.K. McCann	–	– 103,000 Macquarie Martin Place Trust units
		– 112,415 Charter Hall Retail REIT units
J.R. Niland	–	–
H.M. Nugent	–	–
P.H. Warne		– 70,418 Charter Hall Retail REIT units

¹ A company in which Mr Clarke has a relevant interest entered into a Zero Cost Collar transaction with Macquarie Bank Limited in respect of 213,517 Macquarie ordinary shares, which had the effect of acquiring cash-settled put options against movements in the Macquarie ordinary share price below the then current share price over the period from 15 June 2005 for the period to 14 June 2010 in respect of those shares.

The above transaction does not relate to Macquarie ordinary shares in respect of which the relevant persons are not permitted by Macquarie policy to minimise their equity risk.

Directors' Report

for the financial year ended 31 March 2010

continued

Environmental regulations

The consolidated entity has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, those obligations are identified and appropriately addressed.

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

Non-audit services

Details of the amounts paid or payable to the auditor of the consolidated entity, PricewaterhouseCoopers (PwC), and its related practices for non-audit services provided during the year is disclosed in note 44 to the full financial report – Audit and other services provided by PwC.

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

The BACC has reviewed a summary of non-audit services provided during the year by PwC and its related practices, and has confirmed that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth) (the Act). This has been formally advised to the Board of Directors. Consequently, the Voting Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices did not compromise the auditor independence requirements of the Act.

Auditor's independence declaration

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

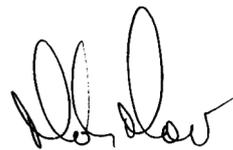
Rounding of amounts

In accordance with Australian Securities & Investments Commission Class Order 98/0100 (as amended), amounts in the full Financial Report and Concise Report have been rounded off to the nearest million dollars unless otherwise indicated.

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



David S. Clarke, AO
Non-Executive Director and
Chairman



Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
29 April 2010

Directors' Report Schedule 1

for the financial year ended 31 March 2010

Directors' experience and special responsibilities

David S. Clarke, AO, BEc (Hons), Hon DScEcon (Syd), MBA (Harv) (age 68)

Non-Executive Chairman – joined the Board in August 2007 (granted leave from 27 November 2008 to 30 August 2009)

Chairman - Board Nominating Committee

Member - Board Remuneration Committee

Member - Board Risk Committee

David Clarke has been Non-Executive Chairman of Macquarie Group Limited since August 2007 and Non-Executive Chairman of Macquarie Bank Limited (Macquarie Bank) since 1 April 2007. He was Executive Chairman of Macquarie Bank from its formation in 1985 until 31 March 2007, when he ceased executive duties. From 1971 to 1977, he was Joint Managing Director of Hill Samuel Australia Limited (predecessor to Macquarie Bank), from 1977 to 1984 Managing Director and from 1984, Executive Chairman. He is a member of the Investment Advisory Committee of the Australian Olympic Foundation and the Bloomberg Asia Pacific Advisory Board. He is also a member of Council of the Royal Agricultural Society of NSW and an honorary life member of the Financial Markets Foundation for Children. He was previously Chairman of Australian Vintage Limited (November 1991 to July 2009), Goodman Group (October 2000 to July 2009) and the management companies of Macquarie ProLogis Trust (June 1987 to March 2007), Macquarie Office Trust (June 1987 to March 2007) and Macquarie CountryWide Trust (June 1995 to March 2007). Mr Clarke is a resident of New South Wales.

Nicholas W. Moore, BCom LLB (UNSW), FCA (age 51)

Managing Director and Chief Executive Officer since May 2008

Executive Voting Director – joined the Board in February 2008

Member - Board Risk Committee

Nicholas Moore joined the Corporate Services Division of Macquarie Bank in 1986. He led a range of transactions, including Hills Motorway, which led the development of Macquarie's infrastructure business. In 1996, Mr Moore was appointed Head of the Project and Structured Finance Division. In 1998 he was appointed Head of the Asset and Infrastructure Group and then Head of the Investment Banking Group (predecessor to Macquarie Capital) on its inception in 2001. In this role, he oversaw significant growth in Macquarie Capital's net income through the global growth of the advisory, fund management, financing and securities businesses. Mr Moore is also an Executive Voting Director of Macquarie Bank (since May 2008). Currently, he is Chairman of Police and Community Youth Clubs NSW Limited, a Director of the Centre for Independent Studies and Chairman of the University of NSW Business School Advisory Council. He was a Director of Macquarie Infrastructure Group (January 1996 to April 2008), Macquarie Capital Alliance Group (August 2003 to April 2008) and Macquarie Media Group (September 2005 to April 2008). Mr Moore is a resident of New South Wales.

Directors' Report Schedule 1

for the financial year ended 31 March 2010

continued

Michael J. Hawker, BSc (Sydney), FAICD, FAIM, SF Fin (age 50)

*Independent Voting Director since 22 March 2010
Member - Board Risk Committee*

Michael Hawker was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008. From 1995 to 2001, he was with Westpac where his roles included Group Executive of Business and Consumer Banking and General Manager of Financial Markets. Prior to this, he held a number of roles with Citibank, including Deputy Managing Director for Australia and subsequently Executive Director, Head of Derivatives, Europe. Currently, Mr Hawker is an Independent Voting Director of Macquarie Bank (since March 2010) and he serves as a Director of Aviva Plc Group, the largest insurance provider in the UK, the Australian Rugby Union and the Sydney University Football Club Foundation. He is also a member of the Advisory Board to GEMS, a Hong-Kong based private equity firm. He was previously President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, board member of the Geneva Association, member of the Financial Sector Advisory Council and is the founder of the Australian Business in the Community Network. Mr Hawker is a resident of the United Kingdom.

Peter M. Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 62)

Independent Voting Director – joined the Board in August 2007

*Member - Board Audit and Compliance Committee
Member - Board Corporate Governance Committee
Member - Board Risk Committee*

Peter Kirby joined the Board of Macquarie Bank as an Independent Voting Director in June 2003. Mr Kirby was the Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003. He was also a member of the Board of the Business Council of Australia from 2001 to 2003. Mr Kirby received the Centenary Medal in 2003. Prior to joining CSR, he was with the Imperial Chemical Industries PLC group (ICI) for 25 years in a variety of senior management positions around the world, including Chairman/CEO of ICI Paints, responsible for the group's coatings businesses worldwide, and a member of the Executive Board of ICI PLC, with responsibility for ICI Americas and the western hemisphere. Mr Kirby is a Director of Orica Limited (since July 2003) and the Beacon Foundation. He is a former Chairman and Director of Medibank Private Limited. Mr Kirby is a resident of Victoria.

**Catherine B. Livingstone, AO, BA (Hons)
(Macquarie), HonDBus (Macquarie), HonDSc
(Murdoch), FCA, FTSE (age 54)**

Independent Voting Director – joined the Board in August 2007

Chairman - Board Audit and Compliance Committee

Member - Board Nominating Committee

Member - Board Risk Committee

Catherine Livingstone joined the Board of Macquarie Bank as an Independent Voting Director in November 2003. Ms Livingstone was the Managing Director of Cochlear Limited from 1994 to 2000. Prior to that she was the Chief Executive, Finance at Nucleus Limited and before that held a variety of finance and accounting roles including having been with chartered accountants, Price Waterhouse, for several years. Ms Livingstone was also previously Chairman of the CSIRO and a Director of Goodman Fielder Limited and Rural Press Limited. Ms Livingstone was awarded the Centenary Medal in 2003 for service to Australian Society in Business Leadership and was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2002. Currently, she is Chairman of Telstra Corporation Limited (Director since November 2000 and Chairman since May 2009). She is also a Director of WorleyParsons Limited (since June 2007) and Future Directions International Pty Limited and is a member of the New South Wales Innovation Council. Ms Livingstone is a resident of New South Wales.

**H. Kevin McCann, AM, BA LLB (Hons) (Syd), LLM
(Harv), FAICD (age 69)**

(Acting Chairman from 27 November 2008 to 30 August 2009)

Independent Voting Director – joined the Board in August 2007

Lead Independent Voting Director

Chairman - Board Corporate Governance Committee

Member - Board Audit and Compliance Committee

Member - Board Risk Committee

Kevin McCann joined the Board of Macquarie Bank as an Independent Voting Director in December 1996. Currently, he is Chairman of Origin Energy Limited (since February 2000) and the Sydney Harbour Federation Trust, a Director of BlueScope Steel Limited (since May 2002) and a member of the Council of the National Library of Australia, the Sydney Harbour Conservancy Board, the University of Sydney Senate and the Evans and Partners Advisory Board. He is also NSW President, Chairman of the Corporate Governance Committee and a board member of the Australian Institute of Company Directors. Mr McCann was Partner (from 1970 to 2004) and Chairman of Allens Arthur Robinson, a leading firm of Australian lawyers. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He was also Chairman of Triako Resources Limited (April 1999 to September 2006) and Healthscope Limited (March 1994 to October 2008) and is a former member of the Takeovers Panel in Australia. Mr McCann is a resident of New South Wales.

Directors' Report Schedule 1

for the financial year ended 31 March 2010

continued

John R. Niland, AC, BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 69)

Independent Voting Director – joined the Board in August 2007

Member - Board Corporate Governance Committee

Member - Board Remuneration Committee

Member - Board Risk Committee

John Niland joined the Board of Macquarie Bank as an Independent Voting Director in February 2003. Dr Niland is a Professor Emeritus of the University of New South Wales (UNSW) and was Vice-Chancellor and President of UNSW from 1992 to 2002. Before that he was the Dean of the Faculty of Commerce and Economics. Dr Niland is a former Chief Executive of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority. He has served on the Australian Universities Council, the Prime Minister's Science, Engineering and Innovation Council, and the Boards of the Centennial Park and Moore Park Trust, realestate.com.au Limited, St Vincent's Hospital, the Sydney Symphony Orchestra Foundation and the Sydney Olympic bid's Building Commission. He is a former President of the National Trust of Australia (NSW). He is currently Chairman of Campus Living Funds Management Limited and is also a member of the University Grants Committee of Hong Kong and Deputy Chairman of the Board of Trustees of Singapore Management University. Dr Niland is a resident of New South Wales.

Helen M. Nugent, AO, BA (Hons), PhD (Qld), MBA (Harv), HonDBus (Qld) (age 61)

Independent Voting Director – joined the Board in August 2007

Chairman - Board Remuneration Committee

Member - Board Nominating Committee

Member - Board Risk Committee

Helen Nugent joined the Board of Macquarie Bank as an Independent Voting Director in June 1999. Currently, she is Chairman of Funds SA and Swiss Re Life and Health (Australia) Limited. She is also a Director of Origin Energy Limited (since March 2003) and Freehills. Previously, she was involved in the financial services sector as Director of Strategy at Westpac Banking Corporation (1994 to 1999) and a Non-Executive Director of the State Bank of New South Wales (1993 to 1994) and Mercantile Mutual (1992 to 1994). In addition, she was previously Chairman of Hudson (Australia and New Zealand) and a Director of UNiTAB (July 1999 to October 2006), Carter Holt Harvey (May 2003 to June 2006) and Australia Post. She has also been a Partner at McKinsey and Company. She has been actively involved in the arts and education. In the arts, she is a Director of the National Portrait Gallery and was formerly Deputy Chairman of the Australia Council, Chairman of the Major Performing Arts Board of the Australia Council, Chairman of the Ministerial Inquiry into the Major Performing Arts and Deputy Chairman of Opera Australia. In education, she is currently Chancellor of Bond University and was a member of the Bradley Review into Higher Education and Professor in Management and Director of the MBA Program at the Australian Graduate School of Management. Dr Nugent is a resident of New South Wales.

Peter H. Warne, BA (Macquarie) (age 54)

Independent Voting Director – joined the Board in August 2007

Chairman - Board Risk Committee

Member - Board Audit and Compliance Committee

Member - Board Remuneration Committee

Peter Warne joined the Board of Macquarie Bank as an Independent Voting Director in July 2007. Mr Warne was Head of Bankers Trust Australia Limited's (BTAL) Financial Markets Group from 1988 to 1999. Prior to this he held a number of roles at BTAL. He was a Director and Deputy Chairman of the Sydney Futures Exchange (SFE) from 1995 to 1999 and a Director from 2000 to 2006. When the SFE merged with the Australian Securities Exchange in July 2006, he became a Director of ASX Limited. Currently, Mr Warne is on the board of other listed entities as Chairman of ALE Property Group (since September 2003) and a Director (currently Acting Chairman) of WHK Group Limited (since May 2007). He is also Deputy Chairman of Capital Markets CRC Limited and Director of Next Financial Limited. Mr Warne is a Director of Securities Research Centre of Asia Pacific Limited and a member of the Advisory Board of the Australian Office of Financial Management. He is a former Director of Macquarie Capital Alliance Group (February 2005 to June 2007) and a former Chairman and Director of TEYS Limited (Director from October 2007 and Chairman from July 2008 to June 2009). Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience

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

Company Secretary since 12 October 2006

Dennis Leong is an Executive Director of Macquarie and Head of Macquarie's Company Secretarial Division, which is responsible for the Group's company secretarial requirements, professional risks insurances and employee equity plans. He has had over 16 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Paula Walsh, ACIS

Assistant Company Secretary since 29 May 2008

Paula Walsh is a Division Director of Macquarie. She has over 22 years company secretarial experience, with 24 years service with British Telecommunications PLC where, amongst other roles, she was Head of Corporate Governance, Asia Pacific, until joining Macquarie in May 2007.

Nigel Donnelly, BEc LLB (Hons) (Macquarie)

Assistant Company Secretary since 30 October 2008

Nigel Donnelly is an Associate Director of Macquarie and has over 10 years experience as a solicitor. He joined Macquarie in April 2006, and was previously a Senior Associate at Mallesons Stephen Jaques with a general corporate advisory and corporate governance focus.

Directors' Report Schedule 2

Auditor's independence declaration



Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2010, 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 Group Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'DH Armstrong'. The signature is fluid and cursive, with a large loop at the end.

DH Armstrong
Partner
PricewaterhouseCoopers
Sydney
29 April 2010

Macquarie Group Limited

2010 Financial Report

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The Financial Report was authorised for issue by the Directors on 29 April 2010.
The consolidated entity has the power to amend and reissue the Financial Report.

Income statements

for the financial year ended 31 March 2010

	Notes	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Interest and similar income		4,591	6,420	453	842
Interest expense and similar charges		(3,511)	(5,482)	(456)	(839)
Net interest income/(expense)	2	1,080	938	(3)	3
Fee and commission income	2	3,721	4,045	-	-
Net trading income	2	1,299	1,157	-	-
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	2	(230)	74	-	-
Other operating income and charges	2	768	(688)	385	(12,305)
Net operating income/(expense)		6,638	5,526	382	(12,302)
Employment expenses	2	(3,101)	(2,359)	(3)	(3)
Brokerage and commission expenses	2	(645)	(685)	(5)	(6)
Occupancy expenses	2	(482)	(393)	-	-
Non-salary technology expenses	2	(283)	(263)	-	-
Other operating expenses	2	(833)	(837)	(20)	(29)
Total operating expenses		(5,344)	(4,537)	(28)	(38)
Operating profit/(loss) before income tax		1,294	989	354	(12,340)
Income tax (expense)/benefit	4	(201)	(15)	9	12
Profit/(loss) from ordinary activities after income tax		1,093	974	363	(12,328)
Distributions paid or provided on:					
Macquarie Income Preferred Securities	5	(8)	(45)	-	-
Macquarie Income Securities	5	(21)	(33)	-	-
Other minority interests		(14)	(25)	-	-
Profit attributable to minority interests		(43)	(103)	-	-
Profit/(loss) attributable to ordinary equity holders of Macquarie Group Limited		1,050	871	363	(12,328)
		Cents per share			
Basic earnings per share	6	320.2	309.6		
Diluted earnings per share	6	317.4	308.6		

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

Statements of comprehensive income for the financial year ended 31 March 2010

	Notes	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Profit/(loss) from ordinary activities after income tax for the financial year		1,093	974	363	(12,328)
Other comprehensive income/(expense):					
Available for sale investments, net of tax	32	129	(226)	-	-
Cash flow hedges, net of tax	32	178	(251)	-	-
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	32	36	(58)	-	-
Exchange differences on translation of foreign operations, net of tax		(242)	21	-	-
Total other comprehensive income/(expense) for the financial year		101	(514)	-	-
Total comprehensive income/(expense) for the financial year		1,194	460	363	(12,328)
Total comprehensive income/(expense) for the financial year is attributable to:					
Ordinary equity holders of Macquarie Group Limited		1,107	321	363	(12,328)
Macquarie Income Preferred Securities holders		73	73	-	-
Macquarie Income Securities holders		21	33	-	-
Other minority interests		(7)	33	-	-
Total comprehensive income/(expense) for the financial year		1,194	460	363	(12,328)

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

Statements of financial position

as at 31 March 2010

	Notes	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Assets					
Cash and balances with central banks		–	141	–	–
Due from banks	7	8,251	12,271	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	8	7,149	5,096	–	–
Trading portfolio assets	9	12,138	9,260	–	–
Loan assets held at amortised cost	10	44,267	44,751	–	–
Other financial assets at fair value through profit or loss	12	9,172	7,910	–	–
Derivative financial instruments – positive values	40	21,561	27,428	–	–
Other assets	13	13,096	10,640	104	95
Investment securities available for sale	14	18,221	18,123	–	–
Intangible assets	15	1,456	759	–	–
Life investment contracts and other unitholder investment assets	16	4,846	4,314	–	–
Due from subsidiaries	34	–	–	11,643	10,390
Interests in associates and joint ventures accounted for using the equity method	17	3,927	6,123	–	–
Property, plant and equipment	18	605	605	–	–
Investments in subsidiaries	19	–	–	13,322	11,391
Deferred income tax assets	20	1,124	1,186	56	368
Non-current assets and assets of disposal groups classified as held for sale	21	127	537	–	–
Total assets		145,940	149,144	25,125	22,244
Liabilities					
Due to banks	22	9,927	11,858	6,922	7,393
Cash collateral on securities lent and repurchase agreements	23	7,490	3,953	–	–
Trading portfolio liabilities	24	5,432	2,161	–	–
Derivative financial instruments – negative values	40	21,706	27,371	–	–
Deposits		22,484	21,868	54	104
Debt issued at amortised cost	25	42,614	48,270	3,154	–
Other financial liabilities at fair value through profit or loss	26	4,413	6,203	–	–
Other liabilities	27	12,679	10,342	–	–
Current tax liabilities		119	187	9	–
Life investment contracts and other unitholder liabilities		4,864	4,312	–	–
Due to subsidiaries	34	–	–	2,357	3,919
Provisions	28	191	189	–	–
Deferred income tax liabilities	20	235	4	–	–
Liabilities of disposal groups classified as held for sale	21	9	328	–	–
Total liabilities excluding loan capital		132,163	137,046	12,496	11,416
Loan capital					
Macquarie Convertible Preference Securities		593	591	–	–
Subordinated debt at amortised cost		916	1,496	–	–
Subordinated debt at fair value through profit or loss		499	451	–	–
Total loan capital	30	2,008	2,538	–	–
Total liabilities		134,171	139,584	12,496	11,416
Net assets		11,769	9,560	12,629	10,828

	Notes	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Equity					
Contributed equity					
Ordinary share capital	31	6,990	4,906	9,806	7,729
Treasury shares	31	(443)	(2)	(438)	–
Exchangeable shares	31	137	116	–	–
Reserves	32	280	17	359	153
Retained earnings	32	4,268	3,627	2,902	2,946
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		11,232	8,664	12,629	10,828
Minority interests					
Macquarie Income Preferred Securities	32	67	398	–	–
Macquarie Income Securities	32	391	391	–	–
Other minority interests	32	79	107	–	–
Total equity		11,769	9,560	12,629	10,828

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

Statements of changes in equity for the financial year ended 31 March 2010

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Minority interests \$m	Total equity \$m
							Consolidated
Balance at 1 April 2008		4,655	456	3,718	8,829	1,232	10,061
Total comprehensive (expense)/ income for the financial year		–	(550)	871	321	139	460
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	355	–	–	355	–	355
Dividends paid	5	–	–	(962)	(962)	–	(962)
Minority interests:							
Contributions/distributions of equity, net of transaction costs	32	–	–	–	–	10	10
Financing of Macquarie Income Preferred Securities	32	–	–	–	–	(382)	(382)
Distributions paid or provided		–	–	–	–	(103)	(103)
Other equity movements:							
Net movement on exchangeable shares	31	(17)	–	–	(17)	–	(17)
Share based payments		17	111	–	128	–	128
Net sale of treasury shares	31	10	–	–	10	–	10
		365	111	(962)	(486)	(475)	(961)
Balance at 31 March 2009		5,020	17	3,627	8,664	896	9,560
Total comprehensive income for the financial year		–	57	1,050	1,107	87	1,194
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	2,066	–	–	2,066	–	2,066
Issue of shares to MEREP Trust	31	(438)	–	–	(438)	–	(438)
Dividends paid	5	–	–	(409)	(409)	–	(409)
Minority interests:							
Contributions/distributions of equity, net of transaction costs	32	–	–	–	–	(7)	(7)
Cancellation of Macquarie Income Preferred Securities	32	–	–	–	–	(396)	(396)
Distributions paid or provided		–	–	–	–	(43)	(43)
Other equity movements:							
Net movement on exchangeable shares	31	21	–	–	21	–	21
Share based payments		18	206	–	224	–	224
Net purchase of treasury shares	31	(3)	–	–	(3)	–	(3)
		1,664	206	(409)	1,461	(446)	1,015
Balance at 31 March 2010		6,684	280	4,268	11,232	537	11,769

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Minority interests \$m	Total equity \$m
							Company
Balance at 1 April 2008		7,364	42	16,231	23,637	–	23,637
Total comprehensive (expense)/ income for the financial year		–	–	(12,328)	(12,328)	–	(12,328)
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	348	–	–	348	–	348
Dividends paid	5	–	–	(957)	(957)	–	(957)
Other equity movements:							
Share based payments		17	111	–	128	–	128
		365	111	(957)	(481)	–	(481)
Balance at 31 March 2009		7,729	153	2,946	10,828	–	10,828
Total comprehensive income for the financial year		–	–	363	363	–	363
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	2,059	–	–	2,059	–	2,059
Issue of shares to MEREP Trust	31	(438)	–	–	(438)	–	(438)
Dividends paid	5	–	–	(407)	(407)	–	(407)
Other equity movements:							
Share based payments		18	206	–	224	–	224
		1,639	206	(407)	1,438	–	1,438
Balance at 31 March 2010		9,368	359	2,902	12,629	–	12,629

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

Statements of cash flows

for the financial year ended 31 March 2010

	Notes	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Cash flows from operating activities					
Interest received		4,275	6,077	453	842
Interest and other costs of finance paid		(3,672)	(5,490)	(461)	(838)
Dividends and distributions received		572	568	380	858
Fees and other non-interest income received/(paid)		4,470	4,704	(5)	–
Fees and commissions paid		(624)	(742)	–	–
Net receipts from trading portfolio assets and other financial assets/liabilities		2,626	4,503	–	–
Payments to suppliers		(1,300)	(2,089)	(12)	(36)
Employment expenses paid		(2,862)	(4,120)	(3)	(3)
Income tax paid		(288)	(333)	(62)	(155)
Life investment contract (expense)/income		(137)	265	–	–
Life investment contract premiums received and other unitholder contributions		2,295	3,745	–	–
Life investment contract payments		(3,226)	(4,201)	–	–
Non-current assets and disposal groups classified as held for sale – net receipts from operations		–	265	–	–
Net loan assets repaid		336	3,553	404	3,231
Loan facility repaid to a subsidiary		–	–	(2,551)	(5,000)
Recovery of loans previously written off		19	10	–	–
Net (decrease)/increase in amounts due to other financial institutions, deposits and other borrowings		(8,443)	(1,555)	2,637	2,633
Net cash flows (used in)/from operating activities	33	(5,959)	5,160	780	1,532
Cash flows from investing activities					
Net payments for financial assets available for sale and at fair value through profit or loss		(8,141)	(3,826)	–	–
Payments for interests in associates		(887)	(1,411)	–	–
Proceeds from the disposal of associates		622	444	–	–
Payments for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired		–	(103)	–	–
Proceeds from the disposal of non-current assets and disposal groups classified as held for sale, net of cash disposed		12	745	–	–
Net (payments for)/cash inflow from the acquisition of subsidiaries, excluding disposal groups, net of cash acquired		(309)	65	–	–
Proceeds from the disposal of subsidiaries and businesses excluding disposal groups, net of cash deconsolidated		437	3,354	–	–
Payments for life investment contracts and other unitholder investment assets		(5,717)	(6,950)	–	–
Proceeds from the disposal of life investment contracts and other unitholder investment assets		6,850	7,208	–	–
Payments for property, plant and equipment, and intangible assets		(398)	(299)	–	–
Proceeds from the disposal of property, plant and equipment		–	33	–	–
Proceeds from disposal of management rights		428	–	–	–
Injection of capital to a subsidiary		–	–	(1,805)	(870)
Net cash flows used in investing activities		(7,103)	(740)	(1,805)	(870)

	Notes	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		1,312	81	1,312	81
Payments to minority interests		(238)	(348)	-	-
Repayment of subordinated debt		(406)	(235)	-	-
Issue of Macquarie Convertible Preference Securities		-	600	-	-
Payment of issue costs on Macquarie Convertible Preference Securities		-	(9)	-	(9)
Dividends and distributions paid		(328)	(829)	(287)	(734)
Net cash flows from/(used in) financing activities		340	(740)	1,025	(662)
Net (decrease)/increase in cash and cash equivalents					
		(12,722)	3,680	-	-
Cash and cash equivalents at the beginning of the financial year		24,495	20,815	-	-
Cash and cash equivalents at the end of the financial year	33	11,773	24,495	-	-

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

Notes to the financial statements

for the financial year ended 31 March 2010

Note 1

Summary of significant accounting policies

(i) Basis of preparation

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

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

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 Macquarie Group Limited and its subsidiaries (the consolidated entity) and the consolidated financial report such as:

- fair value of assets and liabilities (note 43);
- impairment of loan assets held at amortised cost, investment securities available for sale, associates and joint ventures and held for sale investments (notes 1(xii), 1(xiii), 11 and 41.1);
- acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 1(ii), 1(xii), 17, 19 and 21);
- determination of control of special-purpose entities (notes 1(ii), 10 and 25);
- recoverability of deferred tax assets and provision for current and deferred income tax (notes 1(vii), 4 and 20); and
- goodwill and other identifiable intangible assets (notes 1(xvi)).

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

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

When a new Accounting Standard is first adopted, any change in accounting policy is accounted for in accordance with the specific transitional provisions (if any), otherwise retrospectively.

The Company's and the consolidated entity's assessment of the impact of the key new Accounting Standards, amendments to Accounting Standards and Interpretations is set out below:

AASB 2008–3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*

AASB 2008–3 *Amendments to Australian Accounting Standards* arising from AASB 3 and AASB 127 (effective for annual reporting periods beginning on or after 1 July 2009). These standards amend the accounting for certain aspects of business combinations and changes in ownership interests in controlled entities. Consequential amendments have been made to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*. Changes include:

- transaction costs are recognised as an expense at the acquisition date, unless the cost relates to issuing debt or equity securities;
- contingent consideration is measured at fair value at the acquisition date (allowing for a 12 month period post-acquisition to affirm fair values) without regard to the probability of having to make future payment, and all subsequent changes in fair value are recognised in profit;
- changes in control or significant influence are considered significant economic events, thereby requiring ownership interests to be remeasured to their fair value (and the gain/loss recognised in profit) when control of a controlled entity is gained or lost;
- changes in a parent's ownership interest in a controlled entity that do not result in a loss of control (e.g. dilutionary gains) are recognised directly in equity;
- disclosure of any restrictions on the ability of associates to transfer funds to the consolidated entity in the form of cash dividends, or repayment of loans or advances; and
- disclosure of the consolidated entities share of the capital commitments of the joint ventures themselves.

Until future acquisitions take place that are accounted for in accordance with revised AASB 3, the impact on the consolidated entity is not known. The consolidated entity will apply the amended standard from 1 April 2010.

AASB 2008–6 Further Amendments to Australian Accounting Standards

AASB 2008–6 *Further Amendments to Australian Accounting Standards* arising from the Annual Improvements Project (effective for annual periods on or after 1 July 2009).

The amendments to AASB 5 *Discontinued Operations* and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The consolidated entity will apply the amendments prospectively to all partial disposals of subsidiaries from 1 April 2010.

AASB 2009–4 Further Amendments to Australian Accounting Standards

AASB 2009–4 *Amendments to Australian Accounting Standards* arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2009). The AASB has made amendments to AASB 2 *Share-based Payment*, AASB 138 *Intangible Assets* and AASB Interpretations 9 *Reassessment of Embedded Derivatives* and 16 *Hedges of a Net Investment in a Foreign Operation* as a result to the IASB's annual improvements project. The consolidated entity will apply the amendments from 1 April 2010. Currently no adjustments are expected as a result of applying the revised rules. The impact of these on future transactions will need to be assessed at the time of the transactions.

AASB 2009–5 Further Amendments to Australian Accounting Standards

AASB 2009–5 *Further Amendments to Australian Accounting Standards* arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2010). In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The consolidated entity will apply the revised standards from 1 April 2011. The consolidated entity does not expect that any adjustments will be necessary as a result of applying the revised rules. The impact on future transactions will need to be assessed as they occur.

AASB 9 Financial Instruments

A new standard was issued in December 2009 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It provides revised guidance on the classification and measurement of financial assets, which is the first phase of a multi-phase project to replace AASB 139 *Financial Instruments: Recognition and Measurement*.

Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value.

Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity, but upon realisation those accumulated changes in value are not recycled to the income statement. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement. The consolidated entity is currently assessing the impact of the new standard, and it is likely that some financial assets:

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

AASB 9 must be initially applied in the financial year beginning 1 April 2013, with early adoption permitted. Upon adoption, the classification of a financial asset must be assessed based on the facts at the date of initial application, and that classification is to be applied retrospectively.

ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Company and its subsidiaries. Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern directly or indirectly decision-making in relation to financial and operating policies, so as to require that entity to conform with the Company's objectives. The effects of all transactions between entities in the consolidated entity are eliminated in full. Minority interests 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 and consolidated statement of financial position, respectively.

Where control of an entity was obtained during the financial year, its results have been 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.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 1

Summary of significant accounting policies continued

(ii) Principles of consolidation continued

Subsidiaries continued

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

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

Impairment of subsidiaries

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

Securitisations

Securitised positions are held through a number of Special Purpose Entities (SPEs). These are generally categorised as Mortgage SPEs and Other SPEs, and include certain managed funds and repackaging vehicles. As the consolidated entity is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the consolidated entity's statement of financial position and income statement.

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

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

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

Associates and joint ventures are entities over which the consolidated entity has significant influence or joint control, but not control, and are accounted for under the equity method except for 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 income statement, and its share of post-acquisition movements in reserves.

The Company and consolidated entity determine the dates of obtaining/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/disposal date does not necessarily occur when the transaction is closed or finalised under law.

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

(iii) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control. Cost is measured as the aggregate of the fair values (at the date of exchange) of assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus 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 on an effective yield basis.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the consolidated entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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.

(iv) Segment reporting

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

(v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into 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 equity as a result of meeting cash flow hedge or net investment hedge accounting requirements (see note 1(xi)).

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

Subsidiaries and other entities

The results and financial position of all foreign operations that have a functional currency other than Australian dollars (the presentation currency) 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 date of the transactions

- all resulting exchange differences are recognised in a separate component of equity – the foreign currency translation reserve.

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

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

(vi) Revenue recognition

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

Interest income

Interest income is brought to account using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts 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

Fees and commission income and expense 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 fees and commission income, including fees from fund management, brokerage, account servicing, corporate advisory, underwriting and securitisation arrangements are recognised as the related services are performed. Where commissions and fees are subject to claw back 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.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 1

Summary of significant accounting policies continued

(vi) Revenue recognition continued

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 upon declaration. Dividends from subsidiaries, associates and joint ventures are recognised in profit or loss when the Company's right to receive the dividend is established.

(vii) Income tax

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

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

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

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

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

Tax consolidation

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

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

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

As part of its trading activities, the consolidated entity borrows and lends securities on a collateralised basis. The securities subject to the borrowing/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/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.

Fees and interest relating to securities borrowing/lending and reverse repurchase/repurchase agreements are recognised in the income statement using the effective interest method, over the expected life of the agreements.

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

(ix) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see note 43). Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

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

(x) Derivative instruments

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

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

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

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

(xi) Hedge accounting

The consolidated entity designates certain derivatives or financial instruments as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the consolidated entity documents the hedging 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 equity 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 40. Movements in the cash flow hedging reserve in equity are shown in note 32.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 1

Summary of significant accounting policies continued

(xii) Investments and other financial assets

With the exception of trading portfolio assets, derivatives and investments in associates and joint ventures, which are classified separately in the statement of financial position, the remaining investments in financial assets are classified into the following categories: loans and receivables (loan assets held at amortised cost and amounts due from subsidiaries), other financial assets at fair value through profit or loss, investment securities available for sale and non-current assets and assets of disposal groups classified as held for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except for other financial assets at fair value through profit or loss, is re-evaluated at each reporting date.

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

Investment securities available for sale

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

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

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

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

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

This category includes interests in associates and joint ventures for which their carrying amount will be recovered principally through a sale transaction rather than continuing use, and subsidiaries acquired exclusively with a view to resale. These assets are classified as held for sale when it is highly probable that the asset will be sold within the 12 months subsequent to being classified as such.

Non-current assets and disposal groups classified as held for sale are presented separately on the face of the statement of financial position. Revenue and expenses from disposal groups are presented as a single amount on the face of the income statement. Financial instruments that are part of disposal groups within the scope of *AASB 5 Non-current Assets Held for Sale and Discontinued Operations* are not subject to the disclosure requirements of *AASB 7 Financial Instruments: Disclosures*.

Non-current assets and 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 sheet 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.

Specific 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 balance sheet date.

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 sheet 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 equity 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 sheet 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 the recoverable amount increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

(xiv) Life insurance business

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

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 1

Summary of significant accounting policies continued

(xiv) Life insurance business continued

Disclosure

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

Investment assets

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

Restriction on assets

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

Policy liabilities

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

(xv) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are reviewed for impairment annually. Historical cost includes expenditure directly attributable to the acquisition of the asset.

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

Furniture and fittings	10 to 20 per cent
Leasehold improvements ¹	20 per cent
Computer equipment	33 to 50 per cent
Plant and equipment	20 to 33 per cent
Infrastructure assets	5 to 20 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 due to an adjustment to its useful life, residual value or an impairment, the carrying amount is written down immediately to its recoverable amount. Adjustments arising from such items and on disposal of property, plant and equipment are recognised in the income statement.

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

(xvi) Goodwill and other identifiable intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of the net identifiable 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

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 and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

(xvii) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

This category includes only those financial liabilities which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial liability as such if: the liability contains embedded derivatives which must otherwise be separated and carried at fair value; the liability is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis; or if by 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.

(xviii) Provisions

Employee benefits

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

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

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

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

Dividends

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

(xix) Earnings per share

Basic earnings per share is calculated by dividing the consolidated entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the consolidated entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

Refer to note 6 for information concerning the classification of securities.

(xx) Performance based remuneration

Share based payments

The consolidated entity operates share-based compensation plans, which include options granted to employees and shares granted to employees under share acquisition plans. Information relating to these schemes is set out in note 36. The consolidated entity recognises an expense (and equity reserve) for its shares and options granted to employees. The shares and options are measured at the grant dates based on their fair value and in the case of options, using the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

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

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 1

Summary of significant accounting policies continued

(xx) Performance based remuneration continued

Share based payments continued

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. The following key assumptions were adopted for grants made in the prior financial year:

- risk free interest rate: 6.77 per cent (weighted average);
- expected life of options: four years;
- volatility of share price: 24 per cent; and
- dividend yield: 3.47 per cent per annum.

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

- risk free interest rate: 5.24 per cent (weighted average);
- expected life of PSU: four years; and
- dividend yield: 3.47 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 Company begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using the Company's share price as at 31 March 2010 (and for PSUs, also incorporates a risk free interest rate of 5.75 per cent; an expected life of four years; and a dividend yield of 3.47 per cent per annum). In the following financial year, the Company will adjust the accumulated expense recognised for the final determination of fair value for each RSU/DSU and PSU to be granted when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

On transition to MEREP, RSUs/DSUs were granted in place of 2009 and some prior years' retained profit share. Where certain Executive Directors' retained profit share relating to 2008 and prior years was voluntarily invested in MEREP at a price of \$36.36 per share (Transitioned Amounts), this is accounted for with the Transitioned Amounts being reclassified from a profit share liability to equity, and the discount to the fair value per RSU/DSU at grant date being treated as a share-based payment.

Further, Executive Directors' retained profit share relating to 2009 that is no longer to be paid in cash is reversed in the current year and recognised in profit, and the RSUs/DSUs granted are accounted for as a share-based payment from 1 April 2009.

The consolidated entity annually revises its estimates of the number of shares (including those delivered through MEREP) and options that are expected to vest. Where appropriate, the impact of revised estimates are reflected in the income statement over the remaining vesting period, with a corresponding adjustment to the share based payments reserve in equity.

Profit share remuneration

The consolidated entity recognises a liability and an expense for profit share remuneration to be paid in cash, based on a formula that takes into consideration the consolidated entity's profit from ordinary activities after income tax and its earnings over and above the estimated cost of capital.

(xxi) Cash and cash equivalents

Cash and cash equivalents include cash and balances with central banks and short-term amounts included in due from banks. Negotiable certificates of deposit with an original maturity of less than 3 months are included within cash and cash equivalents and negotiable certificates of deposit with an original maturity greater than 3 months are included within trading portfolio assets or investment securities available for sale.

(xxii) Leases

Where finance leases are granted to third parties, the present value of the lease payments 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 recognised as unearned interest income. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.

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

Purchased assets, where the consolidated entity is the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 3 to 40 years. Assets under operating leases are included in other assets.

(xxiii) Offsetting financial instruments

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

(xxiv) Loan capital

Loan capital is debt issued by the consolidated entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at either amortised cost using the effective interest method (for convertible preference securities and subordinated debt at amortised cost) or at fair value through profit or loss (for subordinated debt at fair value through profit and loss).

(xxv) Contributed equity

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

(xxvi) Transactions with minorities

Transactions with minorities are recognised in the consolidated entity's financial statements using the parent-entity approach. For securities held by minority interests that are purchased by the consolidated entity at a price less than the securities' carrying amount, then the difference is recognised as a gain in the income statement.

(xxvii) Comparatives

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

(xxviii) Rounding of amounts

The Company is of a kind referred to in ASIC Class Order 98/0100 (as amended), relating to the rounding off of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Note 2				
Profit for the financial year				
Net interest income				
Interest and similar income received/receivable:				
Other entities	4,591	6,420	–	–
Subsidiaries (note 34)	–	–	453	842
Interest expense and similar charges paid/payable:				
Other entities	(3,511)	(5,482)	(363)	(315)
Subsidiaries (note 34)	–	–	(93)	(524)
Net interest income/(expense)	1,080	938	(3)	3
Fee and commission income				
Base fees	926	921	–	–
Performance fees	57	234	–	–
Mergers and acquisitions, advisory and underwriting fees	1,085	1,229	–	–
Brokerage & commissions	1,077	1,037	–	–
Other fee and commission income	532	569	–	–
Income from life investment contracts and other unitholder investment assets (note 16)	44	55	–	–
Total fee and commission income	3,721	4,045	–	–
Net trading income¹				
Equities	590	144	–	–
Commodities	665	583	–	–
Foreign exchange products	145	132	–	–
Interest rate products	(101)	298	–	–
Net trading income	1,299	1,157	–	–
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method				
	(230)	74	–	–

¹ Included in net trading income are fair value losses of \$288 million (2009: \$64 million gain) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes \$255 million loss (2009: \$274 million gain) as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the consolidated entity's economic interest rate risk where hedge accounting requirements are not met – refer to note 1(xi) – Summary of significant accounting policies.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Note 2				
Profit for the financial year continued				
Other operating income and charges				
Net gains on sale of investment securities available for sale	96	143	-	-
Impairment charge on investment securities available for sale	(77)	(306)	-	-
Net gains on sale of associates (including associates held for sale) and joint ventures	50	81	-	-
Impairment charge on investments in associates (including associates held for sale) and joint ventures ¹	(357)	(714)	-	-
Impairment on subsidiaries	-	-	-	(13,163)
Net income from disposal groups held for sale	-	91	-	-
Impairment charge on disposal groups held for sale ²	-	(192)	-	-
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	393	323	-	-
Impairment charge on non-financial assets	(36)	(75)	-	-
Sale of management rights ³	428	-	-	-
Gain on repurchase of subordinated debt	55	-	-	-
Net operating lease income ⁴	138	183	-	-
Dividends/distributions received/receivable:				
Investment securities available for sale	22	49	-	-
Subsidiaries (note 34)	-	-	380	858
Collective allowance for credit losses written back/(provided for) during the financial year (note 10)	2	(90)	-	-
Specific provisions:				
Loan assets provided for during the financial year (note 10)	(177)	(344)	-	-
Other receivables provided for during the financial year	(45)	(40)	-	-
Recovery of loans previously provided for (note 10)	37	17	-	-
Recovery of other receivables previously provided for	17	-	-	-
Loan losses written-off	(69)	(54)	-	-
Recovery of loans previously written-off	19	10	-	-
Other income	272	230	5	-
Total other operating income and charges	768	(688)	385	(12,305)
Net operating income/(expenses)	6,638	5,526	382	(12,302)

¹ Includes impairment reversals of \$43 million (2009: \$nil).

² Impairment charge arising from the reclassification of the Italian mortgages business as a disposal group held for sale.

³ Sale of management rights to Macquarie Airports, Macquarie Media Group and Macquarie Infrastructure Group as part of the internalisation of the management of these funds.

⁴ Includes rental income of \$370 million (2009: \$466 million) less depreciation of \$232 million (2009: \$283 million) in relation to operating leases where the consolidated entity is the lessor.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Note 2				
Profit for the financial year continued				
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	(2,595)	(2,098)	(3)	(3)
Share based payments	(224)	(128)	-	-
Provision for annual leave	(21)	(19)	-	-
Provision for long service leave	(8)	(2)	-	-
Total compensation expense	(2,848)	(2,247)	(3)	(3)
Other employment expenses including on-costs, staff procurement and staff training	(253)	(112)	-	-
Total employment expenses	(3,101)	(2,359)	(3)	(3)
Brokerage and commission expenses				
Brokerage expenses	(501)	(466)	-	-
Other fee and commission expenses	(144)	(219)	(5)	(6)
Total brokerage and commission expenses	(645)	(685)	(5)	(6)
Occupancy expenses				
Operating lease rental	(287)	(224)	-	-
Depreciation: furniture, fittings and leasehold improvements (note 18)	(124)	(95)	-	-
Other occupancy expenses	(71)	(74)	-	-
Total occupancy expenses	(482)	(393)	-	-
Non-salary technology expenses				
Information services	(128)	(121)	-	-
Depreciation: computer equipment (note 18)	(50)	(60)	-	-
Other non-salary technology expenses	(105)	(82)	-	-
Total non-salary technology expenses	(283)	(263)	-	-
Other operating expenses				
Professional fees	(265)	(301)	-	(1)
Auditor's remuneration (note 44)	(22)	(24)	(1)	(1)
Travel and entertainment expenses	(160)	(204)	-	-
Advertising and promotional expenses	(51)	(45)	-	-
Communication expenses	(41)	(43)	-	-
Amortisation of intangibles	(32)	(35)	-	-
Depreciation: communication equipment (note 18)	(7)	(4)	-	-
Other expenses	(255)	(181)	(19)	(27)
Total other operating expenses	(833)	(837)	(20)	(29)
Total operating expenses	(5,344)	(4,537)	(28)	(38)

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the consolidated entity is divided into five operating groups, two operating divisions and a corporate group. These segments have been set up based on the different core products and services offered:

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

Macquarie Capital comprises Macquarie Group's corporate advisory, equity underwriting and specialised funds management businesses (including infrastructure and real estate funds).

Macquarie Funds Group is a full service fund manager that manages assets for pension funds, institutional and retail investors.

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

Corporate and Asset Finance Division provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate and Asset Finance specialises in leasing and asset finance, tailored debt and finance solutions and asset remarketing, sourcing and trading.

Real Estate Banking Division encompasses real estate funds management, asset management, real estate investment, advisory, development management and real estate project and development financing.

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

Corporate includes Group Treasury, head office and central support functions. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and expenses attributable to minority interests. Corporate is not considered an operating group.

Any transfers between segments are determined on an arm's length basis and eliminate on consolidation.

Segment information has been prepared in conformity with the consolidated entity's segment accounting policy. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Macquarie Securities Group \$m	Macquarie Capital \$m	Macquarie Funds Group \$m
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Note 3

Segment reporting continued

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

Revenues from external customers	1,515	2,725	1,142
Inter-segmental revenue/(expense) ¹	132	(377)	(14)
Interest revenue	235	76	161
Interest expense	(167)	(69)	(40)
Depreciation and amortisation	(16)	(79)	(17)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	(218)	10
Net operating income/(expense) from non-current assets held for sale	-	-	-
Reportable segment profit/(loss)	580	657	95
Reportable segment assets	20,926	6,861	8,124

Revenues from external customers	1,611	2,529	726
Inter-segmental revenue/(expense) ¹	107	(322)	(36)
Interest revenue	545	142	212
Interest expense	(376)	(53)	(42)
Depreciation and amortisation	(15)	(55)	(3)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	3	10	(12)
Net operating income/(expense) from non-current assets held for sale	-	94	-
Reportable segment profit/(loss)	275	257	45
Reportable segment assets	18,145	9,104	8,832

¹ Internal reporting systems do not enable the separation of intersegment revenues and expenses. The net position is disclosed above. The key inter-segmental item is internal interest and funding costs charged to businesses for funding of their business net assets.

Fixed Income Currencies and Commodities \$m	Corporate and Asset Finance Division \$m	Real Estate Banking Division \$m	Banking and Financial Services Group \$m	Corporate \$m	Total \$m
Consolidated 2010					
1,977	1,029	155	2,233	952	11,728
(74)	(303)	(105)	122	619	-
651	1,003	76	1,494	895	4,591
(383)	(184)	(5)	(1,054)	(1,609)	(3,511)
(109)	(109)	(2)	(32)	(81)	(445)
11	1	(31)	2	(7)	(230)
-	-	-	-	-	-
827	264	(152)	261	(1,482)	1,050
42,388	14,518	1,835	29,843	21,445	145,940
Consolidated 2009					
1,902	733	299	3,443	1,675	12,918
(111)	(194)	(211)	(418)	1,185	-
782	652	173	2,693	1,221	6,420
(539)	(252)	(6)	(1,902)	(2,312)	(5,482)
(9)	(265)	(2)	(16)	(76)	(441)
69	(1)	5	(7)	7	74
(3)	-	-	-	-	91
509	66	(362)	(99)	180	871
45,994	9,078	3,061	32,080	22,850	149,144

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 3

Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management \$m	Financial Markets \$m	Capital Markets \$m	Lending \$m	Total \$m
					Consolidated 2010
Revenues from external customers	3,145	3,417	2,534	2,632	11,728
					Consolidated 2009
Revenues from external customers	2,769	4,299	1,988	3,862	12,918

(iii) Geographical areas

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

	Revenues from external customers \$m	Non-current assets ¹ \$m
		Consolidated 2010
Australia	6,438	318
Asia Pacific	1,436	75
Europe, Middle East and Africa	1,859	236
Americas	1,995	1,432
Total	11,728	2,061
		Consolidated 2009
Australia	7,130	240
Asia Pacific	1,264	108
Europe, Middle East and Africa	2,512	93
Americas	2,012	923
Total	12,918	1,364

¹ Non-current assets consist of intangible assets and property, plant and equipment.

(iv) Major customers

The consolidated entity does not rely on any major customer.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 4

Income tax (expense)/benefit

(a) Income tax (expense)/benefit

Current tax (expense)/benefit	(154)	(417)	321	(355)
Deferred tax (expense)/benefit	(47)	402	(312)	367
Total	(201)	(15)	9	12

Deferred income tax (expense)/benefit included in income tax (expense)/benefit comprises:

(Decrease)/increase in deferred tax assets	184	284	(312)	367
(Increase)/decrease in deferred tax liabilities	(231)	118	-	-
Total	(47)	402	(312)	367

(b) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable

Prima facie income tax (expense)/benefit on operating profit ¹	(388)	(297)	(106)	3,702
Tax effect of amounts which are non-assessable/ (not deductible) in calculating taxable income:				
Rate differential on offshore income	257	242	2	3
Distribution provided on Macquarie Income Preferred Securities and related distributions	3	13	-	-
Non-deductible share-based payments expense	(34)	(38)	-	-
Other items	(39)	65	-	-
Impairment charge on subsidiary	-	-	-	(3,950)
Intragroup dividends	-	-	113	257
Total income tax (expense)/benefit	(201)	(15)	9	12

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

Available for sale reserves	(3)	52	-	-
Cash flow hedges	(77)	108	-	-
Foreign currency translation reserve	(151)	-	-	-
Share of other comprehensive income of associates and joint ventures	(15)	25	-	-
Total tax (expense)/benefit relating to items of other comprehensive income	(246)	185	-	-

¹ Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2009: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated	Consolidated	Company	Company
	2010	2009	2010	2009
	\$m	\$m	\$m	\$m

Note 5

Dividends paid and distributions paid or provided

(i) Dividends paid

Ordinary share capital

Interim dividend paid (\$0.86 (2009: \$1.45) per share) ¹	287	410	286	408
2009 Final dividend paid (\$0.40 (2008: \$2.00) per share) ²	122	552	121	549
Total dividends paid (note 32)	409	962	407	957

¹ Interim dividend paid by the consolidated entity includes \$1 million (2009: \$2 million) of dividends paid to the holders of exchangeable shares as detailed in note 31 – Contributed equity.

² Final dividend paid by the consolidated entity includes \$1 million (2009: \$3 million) of dividends paid to the holders of exchangeable shares as detailed in note 31 – Contributed equity.

The final dividend paid during the financial year was 60 per cent franked at the 30 per cent corporate tax rate (full year to 31 March 2009: 100 per cent franked at 30 per cent corporate tax rate). The interim dividend paid during the financial year was unfranked (half year to 31 March 2009: 80 per cent franked at the 30 per cent corporate tax rate). The dividends paid to holders of exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains activated. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of fully paid ordinary shares issued pursuant to the DRP are included in note 31 – Contributed equity.

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

Since the end of the financial year the Directors have recommended the payment of the 2010 final dividend of \$1.00 per fully paid ordinary share, unfranked. The aggregate amount of the proposed dividend expected to be paid on 2 July 2010 from retained profits at 31 March 2010, but not recognised as a liability at the end of the financial year, is \$347 million (including \$3 million to be paid by a subsidiary to the holders of the exchangeable shares – refer to note 31 – Contributed equity for further details of these instruments). This amount has been estimated based on the number of shares eligible to participate as at 31 March 2010.

	Consolidated	Consolidated	Company	Company
	2010	2009	2010	2009
Dividend per ordinary share				
Cash dividends per ordinary share (distribution of current year profits)	\$1.86	\$1.85	\$1.86	\$1.85

	Consolidated	Consolidated	Company	Company
	2010	2009	2010	2009
	\$m	\$m	\$m	\$m

Franking credits available for the subsequent financial year at a corporate tax rate of 30 per cent (2009: 30 per cent)

	15	11	15	11
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The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year; and
- franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 5

Dividends paid and distributions paid or provided continued

(iii) Distributions paid or provided

Macquarie Income Securities

Distributions paid (net of distributions previously provided)	16	28	-	-
Distributions provided	5	5	-	-
Total distributions paid or provided	21	33	-	-

The Macquarie Income Securities (MIS) represent the minority interests of a subsidiary. Accordingly, the distributions paid/provided in respect of the MIS are recorded as movements in minority interests, as disclosed in note 32 – Reserves, retained earnings and minority interests. No dividends are payable under the preference shares until MBL, a consolidated entity, exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion. Refer to note 32 – Reserves, retained earnings and minority interests for further details on these instruments.

Macquarie Income Preferred Securities

Distributions paid (net of distributions previously provided)	6	33	-	-
Distributions provided	2	12	-	-
Total distributions paid or provided (note 32)	8	45	-	-

The Macquarie Income Preferred Securities (MIPS) represent the minority interests of a subsidiary. Accordingly, the distributions paid/provided in respect of the MIPS are recorded as movements in minority interests, as disclosed in note 32 – Reserves, retained earnings and minority interests. Macquarie Bank Limited (MBL), a consolidated entity, can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 MBL preference shares may be substituted at MBL's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 32 – Reserves, retained earnings and minority interests for further details on these instruments.

Note 6

Earnings per share

	Consolidated 2010	Consolidated 2009
	Cents per share	
Basic earnings per share	320.2	309.6
Diluted earnings per share	317.4	308.6
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	\$m	\$m
Profit from ordinary activities after income tax	1,093	974
Profit attributable to minority interests:		
Macquarie Income Preferred Securities	(8)	(45)
Macquarie Income Securities	(21)	(33)
Other minority interests	(14)	(25)
Total earnings used in the calculation of basic earnings per share	1,050	871
Add back adjusted interest expense on Macquarie Convertible Preference Securities	32	-
Total earnings used in the calculation of diluted earnings per share	1,082	871

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Consolidated Consolidated
2010 2009

Note 6

Earnings per share continued

	Number of shares	
Total weighted average number of ordinary shares used in the calculation of basic earnings per share	327,908,104	281,373,310
Weighted average number of shares used in the calculation of diluted earnings per share		
Weighted average fully paid ordinary shares	327,908,104	281,373,310
Potential ordinary shares:		
Weighted average options	268,277	953,793
Weighted average MEREP awards	275,888	–
Weighted average retention securities and options	153,375	–
Macquarie Convertible Preference Securities	12,237,648	–
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	340,843,292	282,327,103

Information concerning the classification of securities

Options

Options granted to employees under the Macquarie Group Employee Share Option Plan (MGESOP) are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive. The issue price, which is equivalent to the fair value of the options granted, and exercise price used in this assessment incorporate both the amounts recognised as an expense up to the reporting date as well as the fair value of options yet to be recognised as an expense in the future.

Included in the balance of weighted average options are 85,318 (2009: 379,687) options that were converted, lapsed or cancelled during the financial year. There are a further 42,643,151 (2009: 48,576,394) options that have not been included in the balance of weighted average options on the basis that their adjusted exercise price was greater than the average market price of the Company's fully paid ordinary shares for the financial year ended 31 March 2010 and consequently, they are not considered to be dilutive.

MGL has suspended new offers under the MGESOP under the new remuneration arrangements which were the subject of shareholder approvals obtained at a General Meeting of MGL in December 2009. The last grant of options under the MGESOP was on 8 December 2009. Currently MGL does not expect to issue any further options under the MGESOP.

Macquarie Group Employee Retained Equity Plan

In December 2009 MGL shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP). Awards granted under MEREP are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. As at 31 March 2010 all MEREP awards were considered dilutive.

Exchangeable shares

The exchangeable shares on issue (refer note 31 – Contributed equity) are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of issue.

Retention securities and options

Retention securities and options are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The fair value of these securities and options are amortised over the vesting period.

Macquarie Convertible Preference Securities

Macquarie Convertible Preference Securities issued during the financial year (refer note 30 – Loan capital) have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings per share.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 7

Due from banks

Cash at bank ¹	3,572	3,227	-	-
Overnight cash at bank ²	3,046	5,669	-	-
Other loans to banks	1,207	3,034	-	-
Due from clearing houses ³	426	341	-	-
Total due from banks	8,251	12,271	-	-

¹ Included within this balance is \$13 million (2009: \$44 million) provided as security over payables to other financial institutions.

² Included within this balance is \$126 million (2009: \$nil) provided as security over payables.

³ Included within this balance is \$9 million (2009: \$nil) provided as security over payables.

Note 8

Cash collateral on securities borrowed and reverse repurchase agreements

Central banks	-	13	-	-
Governments ¹	28	709	-	-
Financial institutions	7,061	4,299	-	-
Other	60	75	-	-
Total cash collateral on securities borrowed and reverse repurchase agreements	7,149	5,096	-	-

¹ Governments include federal, state and local governments and related enterprises.

The consolidated entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2010 is \$7,293 million (2009: \$4,237 million). Under certain transactions, the consolidated entity is allowed to resell or repledge the collateral held.

Note 9

Trading portfolio assets

Trading securities

Equities ¹				
Listed	5,212	3,149	-	-
Unlisted	28	43	-	-
Corporate bonds	2,699	1,117	-	-
Commonwealth government bonds ¹	2,455	3,017	-	-
Other government securities	1,063	995	-	-
Foreign government bonds ¹	305	510	-	-
Bank bills	89	77	-	-
Certificates of deposit ¹	82	174	-	-
Treasury notes	73	7	-	-
Promissory notes	1	-	-	-
Total trading securities	12,007	9,089	-	-
Other trading assets				
Commodities	131	171	-	-
Total other trading assets	131	171	-	-
Total trading portfolio assets²	12,138	9,260	-	-

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 \$200 million (2009: \$108 million).

² Included within this balance are trading assets of \$4,403 million (2009: \$3,331 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Note 10				
Loan assets held at amortised cost				
Due from clearing houses	2,288	1,449	-	-
Due from governments ¹	336	144	-	-
Due from other entities				
Other loans and advances	38,482	40,197	-	-
Less specific provisions for impairment	(347)	(416)	-	-
	38,135	39,781	-	-
Lease receivables	3,742	3,617	-	-
Less specific provisions for impairment	(5)	(15)	-	-
Total due from other entities	41,872	43,383	-	-
Total loan assets before collective allowance for credit losses	44,496	44,976	-	-
Less collective allowance for credit losses	(229)	(225)	-	-
Total loan assets held at amortised cost^{2,3}	44,267	44,751	-	-

¹ Governments include federal, state and local governments and related enterprises in Australia.

² Included within this balance are loans of \$15,998 million (2009: \$20,390 million) held by consolidated SPEs, which are available as security to note holders and debt providers.

³ Included within this balance are other loans of \$710 million (2009: \$831 million) provided as security over issued notes and payables to other external investors and financial institutions.

Specific provisions for impairment

Balance at the beginning of the financial year	431	111	-	-
Provided for during the financial year (note 2)	177	344	-	-
Loan assets written-off, previously provided for	(143)	(24)	-	-
Recovery of loans previously provided for (note 2)	(37)	(17)	-	-
Attributable to foreign currency translation	(76)	17	-	-
Balance at the end of the financial year	352	431	-	-
Specific provisions as a percentage of total gross loan assets	0.78%	0.95%	-	-

Collective allowance for credit losses

Balance at the beginning of the financial year	225	128	-	-
(Written-back)/provided for during the financial year (note 2)	(2)	90	-	-
Attributable to acquisitions during the financial year	11	7	-	-
Attributable to foreign currency translation	(5)	-	-	-
Balance at the end of the financial year	229	225	-	-

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

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 11

Impaired financial assets

Impaired debt investment securities available for sale before specific provisions for impairment	143	188	-	-
Less specific provisions for impairment	(115)	(137)	-	-
Debt investment securities available for sale after specific provisions for impairment	28	51	-	-
Impaired loan assets and other financial assets with specific provisions for impairment	1,090	1,428	-	-
Less specific provisions for impairment	(443)	(476)	-	-
Loan assets and other financial assets after specific provisions for impairment	647	952	-	-
Total net impaired assets	675	1,003	-	-

Impaired assets have been reported in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and include loan assets (netted with certain derivative liabilities of \$nil (2009: \$85 million)).

Note 12

Other financial assets at fair value through profit or loss

Investment securities	4,552	3,248	-	-
Loan assets	4,620	4,662	-	-
Total other financial assets at fair value through profit or loss¹	9,172	7,910	-	-

¹ Included within this balance is \$2,173 million (2009: \$2,793 million) provided as security over payables to other financial institutions.

Note 13

Other assets

Debtors and prepayments	5,670	4,588	104	95
Security settlements ¹	5,480	3,694	-	-
Assets under operating leases ²	1,295	1,999	-	-
Property held for sale and development	572	313	-	-
Other	79	46	-	-
Total other assets³	13,096	10,640	104	95

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

² Assets under operating leases are stated net of accumulated depreciation of \$343 million (2009: \$621 million).

³ Included within this balance is \$835 million (2009: \$1,364 million) of assets which are provided as security over amounts payable to other financial institutions.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Note 14				
Investment securities available for sale				
Equity securities				
Listed ¹	1,001	272	-	-
Unlisted	344	542	-	-
Debt securities ^{2, 3, 4}	16,876	17,309	-	-
Total investment securities available for sale⁵	18,221	18,123	-	-

¹ Included within this balance is \$1 million (2009: \$1 million) provided as security over payables to other financial institutions.

² Included within this balance are debt securities of \$316 million (2009: \$293 million) which are recognised as a result of total return swaps which meet the pass through test of AASB 139 *Financial Instruments: Recognition and Measurement*. The consolidated entity does not have legal title to these assets but has full economic exposure to them.

³ Includes \$2,382 million (2009: \$8,712 million) of Negotiable Certificates of Deposit (NCD) due from financial institutions and \$20 million (2009: \$238 million) of bank bills.

⁴ Included within this balance is \$232 million (2009: \$15 million) provided as security over payables to other financial institutions.

⁵ Included within this balance is \$182 million (2009: \$nil) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Note 15

Intangible assets

Goodwill	767	495	-	-
Customer and servicing contracts	231	157	-	-
Intangible assets with indefinite lives	262	18	-	-
Other identifiable intangible assets	196	89	-	-
Total intangible assets	1,456	759	-	-

Reconciliation of the consolidated entity's movement in intangible assets:

	Goodwill \$m	Customer and servicing contracts \$m	Intangible assets with indefinite lives \$m	Other identifiable intangible assets \$m	Total \$m
Balance at the beginning of the financial year	495	157	18	89	759
Acquisitions during the financial year	375	145	234	113	867
Adjustments to purchase consideration ¹	(9)	(4)	-	-	(13)
Transferred from held for sale	-	-	11	34	45
Disposals during the financial year	(11)	(5)	-	(6)	(22)
Impairment during the financial year	(2)	-	-	(8)	(10)
Amortisation expense for the financial year	-	(23)	-	(9)	(32)
Currency translation difference arising during the financial year	(81)	(39)	(1)	(17)	(138)
Balance at the end of the financial year	767	231	262	196	1,456

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

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

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 16

Life investment contracts and other unitholder investment assets

Cash and due from banks	103	106	-	-
Debt securities	617	714	-	-
Units in unit trusts	3,960	3,372	-	-
Equity securities	166	122	-	-
Total life investment contracts and other unitholder investment assets	4,846	4,314	-	-

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

Income from life investment contracts and other unitholder investment assets

Premium income, investment revenue and management fees	663	342	-	-
Life investment contract claims, reinsurance and changes in policy liabilities	(585)	(266)	-	-
Direct fees	(34)	(21)	-	-
Total income from life investment contracts and other unitholder investment assets (note 2)	44	55	-	-

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

As at 31 March 2010, the life investment contracts business had investment assets in excess of policy holder liabilities of \$13 million (2009: \$14 million).

Note 17

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

Loans and investments without provisions for impairment	2,990	3,852	-	-
Loans and investments with provisions for impairment	1,533	3,349	-	-
Less provision for impairment	(596)	(1,078)	-	-
Loans and investments at recoverable amount	937	2,271	-	-
Total interests in associates and joint ventures accounted for using the equity method	3,927	6,123	-	-

	Consolidated 2010 \$m	Consolidated 2009 \$m
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(a) Reconciliation of movement in the consolidated entity's interests in associates and joint ventures accounted for using the equity method:

Balance at the beginning of the financial year	6,123	5,500
Associates acquired/equity invested	887	1,455
Share of pre-tax (losses)/profits of associates and joint ventures	(329)	105
Share of tax benefit/(expense) of associates and joint ventures	99	(31)
Dividends received/receivable from associates (note 34)	(412)	(472)
Associates disposed of	(565)	(396)
Impairment of investments in associates	(354)	(714)
Foreign exchange and other adjustments	(649)	471
Transferred (to)/from other asset categories	(873)	205
Balance at the end of the financial year	3,927	6,123

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 17

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

(b) Summarised information of interests in material associates and joint ventures is as follows:

Name of entity	Country of incorporation	Reporting date	Ownership interest	
			2010 %	2009 %
Brisconnections Unit Trusts ^a	Australia	30 June	46	–
Diversified CMBS Investments Inc ^{1, b}	USA	31 March	57	57
European Directories SA ^{2, c}	Luxembourg	31 December	14	14
Macquarie AirFinance Limited ^a	Bermuda	31 December	38	38
MAp Airports ^{2, 3, 4, a}	Australia	31 December	22	21
Macquarie Communications Infrastructure Group ^{3, a}	Australia	30 June	–	19
Macquarie Countrywide Trust ^{3, 5, d}	Australia	30 June	–	11
Macquarie Energy Holdings LLC ^e	USA	31 December	–	49
MGPA Limited ^{2, d}	Bermuda	30 June	56	56
Miclyn Express Offshore Limited ^{2, 6, f}	Bermuda	30 June	34	59
Macquarie European Infrastructure Fund LP ^{3, a}	UK	31 March	5	5
Macquarie Goodman Japan Limited ^d	Singapore	31 March	50	50
Macquarie Infrastructure Company ^{3, 5, a}	USA	31 December	8	7
Macquarie Infrastructure Group ^{3, a}	Australia	30 June	–	14
Southern Cross Media Group ^{2, 7, g}	Australia	30 June	25	22
Macquarie Office Trust ^{3, 5, d}	Australia	30 June	–	14
MAIP International Holdings Ltd ^a	Bermuda	31 December	25	25
New World Gaming Partners Holdings British Columbia Limited ^{2, h}	Canada	31 December	31	31
Redford Australian Investment Trust ^{2, a}	Australia	31 December	25	27

¹ Voting rights for this investment are not proportional to the ownership interest. The consolidated entity has joint control because neither the consolidated entity nor its joint investor has control in their own right.

² Significant influence arises due to the consolidated entity's voting power and board representation.

³ The consolidated entity has or had significant influence due to its fiduciary relationship as manager of these entities.

⁴ Previously known as Macquarie Airports.

⁵ Due to a restructure of ownership these interests have now been classified as investment securities available for sale.

⁶ Miclyn Express Offshore Limited was listed on the Australian Securities Exchange during the year ended 31 March 2010, prior to that it was known as MEO Holdings Limited.

⁷ Previously known as Macquarie Media Group.

^a Infrastructure

^b Funds management and investing

^c Directories business

^d Property development/management entity

^e Oil and gas services

^f Metals, mining & energy

^g Media, television, gaming and internet investments

^h Gambling infrastructure

	Consolidated	Consolidated	Company	Company
	2010	2009	2010	2009
	\$m	\$m	\$m	\$m

Note 17

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

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

Share incurred jointly with other investors	9	9	-	-
For which the consolidated entity is severally liable	16	96	-	-

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

Consolidated entity's share of:				
Assets	11,268	18,793	-	-
Liabilities	7,330	12,307	-	-
Revenues	2,181	3,342	-	-
(Loss)/profit after tax	(215)	92	-	-

Note 18

Property, plant and equipment

Furniture, fittings and leasehold improvements

Cost	805	745	-	-
Less accumulated depreciation	(287)	(262)	-	-
Total furniture, fittings and leasehold improvements	518	483	-	-

Communication equipment

Cost	38	35	-	-
Less accumulated depreciation	(27)	(27)	-	-
Total communication equipment	11	8	-	-

Computer equipment

Cost	386	374	-	-
Less accumulated depreciation	(322)	(282)	-	-
Total computer equipment	64	92	-	-

Infrastructure assets

Cost	13	24	-	-
Less accumulated depreciation	(1)	(2)	-	-
Total infrastructure assets	12	22	-	-
Total property, plant and equipment	605	605	-	-

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 18

Property, plant and equipment continued

Reconciliation of the movement in the consolidated entity's property, plant and equipment at their written-down value:

	Furniture, fittings and leasehold improvements \$m	Communication equipment \$m	Computer equipment \$m	Infrastructure assets \$m	Total \$m
Balance at the beginning of the financial year	483	8	92	22	605
Acquisitions	263	11	28	3	305
Disposals	(82)	–	–	(7)	(89)
Reclassification ¹	88	–	–	–	88
Foreign exchange movements	(111)	(1)	(6)	(5)	(123)
Depreciation expense (note 2)	(123)	(7)	(50)	(1)	(181)
Balance at the end of the financial year	518	11	64	12	605

¹ During the year Macquarie International Investments Holdings L.P. and Cies S.E.N.C., a wholly owned subsidiary was transferred out of held for sale. In addition certain other agricultural non-current assets have been transferred out of held for sale. This resulted in \$88 million transferring to property, plant and equipment.

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 \$77 million (2009: \$178 million).

Note 19

Investments in subsidiaries

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Investments at cost without provision for impairment	–	–	9,727	7,602
Investments at cost with provisions for impairment	–	–	16,758	16,952
Less provisions for impairment	–	–	(13,163)	(13,163)
Investments at recoverable amount	–	–	3,595	3,789
Total investments in subsidiaries	–	–	13,322	11,391

The material subsidiaries of the Company, based on contribution to the consolidated entity's profit from ordinary activities, the size of the investment made by the Company or the nature of the activities conducted by the subsidiary, are:

- Delaware Management Holdings Inc. (United States)
- Macquarie Acceptances Limited
- Macquarie Africa (Proprietary) Limited (South Africa)
- Macquarie Agriculture Funds Management Limited (formerly known as Macquarie Pastoral Management Limited)
- Macquarie Alternative Assets Management Limited
- Macquarie Asia Real Estate Management Pty Limited
- Macquarie Australia Securities Limited
- Macquarie B.H. Pty Limited
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited
- Macquarie Capital Advisers Limited
- Macquarie Capital Funding L.P. (Jersey)

Note 19

Investments in subsidiaries continued

- Macquarie Capital Funds (Europe) Limited (United Kingdom)
- Macquarie Capital Group Limited
- Macquarie Capital (USA) Inc (United States)
- Macquarie Corporate and Asset Finance Limited
- Macquarie Corporate Finance Limited
- Macquarie EMG Holdings Pty Limited
- Macquarie Energy Investments LLC (United States)
- Macquarie Finance Korea Co Limited (Republic of Korea)
- Macquarie Finance Limited
- Macquarie Financial Holdings Limited
- Macquarie Financial Limited/Financiere Macquarie Ltee (Canada)
- Macquarie Financial Products Management Limited
- Macquarie France SARL (France)
- Macquarie Funding Inc (Canada)
- Macquarie Funds Management Holdings Pty Limited
- Macquarie Funding Holdings Inc (United States)
- Macquarie Group Services Australia Pty Limited
- Macquarie Hong Kong Finance Limited (Cayman Islands)¹
- Macquarie Holdings (USA) Inc (United States)
- Macquarie Income Investments Limited
- Macquarie Infrastructure Management (Asia) Pty Limited
- Macquarie Infrastructure Management (USA) Inc (United States)
- Macquarie International Finance Limited
- Macquarie Investment Holdings No.2 Pty Limited
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Investment Australia Pty Limited
- Macquarie Private Capital Management Limited
- Macquarie Property Investment Management 2 Limited
- Macquarie Securities (Australia) Limited
- Macquarie Securities South Africa (Proprietary) Limited (South Africa)
- Macquarie Securitisation Limited
- Macquarie Specialised Asset Management Limited
- MQ Portfolio Management Limited

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

Overseas subsidiaries conduct business predominantly in their place of incorporation, unless otherwise stated.

Beneficial interest in all entities is 100 per cent.

All entities have a 31 March reporting date.

¹ Incorporated in the Cayman Islands with business conducted predominantly in Hong Kong.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated	Consolidated	Company	Company
	2010	2009	2010	2009
	\$m	\$m	\$m	\$m
Note 20				
Deferred income tax assets/(liabilities)				
The balance comprises temporary differences attributable to:				
Other assets and liabilities	1,027	1,217	56	–
Tax losses	222	511	–	368
Tax effect of reserves	8	104	–	–
Set-off of deferred tax liabilities	(133)	(646)	–	–
Total deferred income tax assets	1,124	1,186	56	368
Intangible assets	(145)	–	–	–
Investments in subsidiaries, associates and joint ventures	(98)	(143)	–	–
Other liabilities	(78)	–	–	–
Financial instruments	(45)	(498)	–	–
Fixed assets	(2)	(9)	–	–
Set-off of deferred tax assets	133	646	–	–
Total deferred income tax liabilities	(235)	(4)	–	–
Net deferred income tax assets	889	1,182	56	368

Potential tax assets of approximately \$130 million (2009: \$52 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 period's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax losses. Deductible temporary differences and tax losses give rise to deferred tax assets. Deferred tax assets are not recognised unless the benefit is probable of realisation.

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

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 21

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

Non-current assets and assets of disposal group classified as held for sale

Associates	76	35	–	–
Other non-current assets ¹	4	56	–	–
Assets of disposal groups classified as held for sale ²	47	446	–	–
Total non-current assets and assets of disposal groups classified as held for sale	127	537	–	–
Liabilities of disposal groups classified as held for sale				
Total liabilities of disposal groups classified as held for sale²	9	328	–	–

¹ Included within this balance are assets with a carrying value of \$nil (2009: \$10 million) provided as security over payables to other financial institutions.

² The balance at 31 March 2010 represents the assets and liabilities of Advanced Markets Holdings LLC. The balance at 31 March 2009 represents the assets and liabilities of Macquarie International Investments Holdings L.P. & Cies S.E.N.C.

All of the above non-current assets and assets/liabilities of disposal groups classified as held for sale are expected to be disposed of to other investors within 12 months of being classified as held for sale unless events or circumstances occur that are beyond the control of the consolidated entity, and the consolidated entity remains committed to its plan to sell the assets.

(a) Summarised information of material associates and joint ventures classified as held for sale is as follows:

Name of entity	Country of incorporation	Reporting date	Ownership interest	
			2010 %	2009 %
Retirement Villages Group R.E. Limited ^{1, a}	Australia	30 June	10	11
US Senior Living Trust ^a	USA	31 December	–	50

All associates and joint ventures classified as held for sale are unlisted companies.

Voting power is equivalent to ownership interest unless otherwise stated.

¹ The consolidated entity's interest in this entity was reclassified from interests in associates and joint ventures to held for sale during the financial year.

^a Retirement homes

(b) For associates and joint ventures classified as held for sale, the consolidated entity's share of contingent liabilities, is as follows:

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Share incurred jointly with other investors	–	–	–	–
For which the consolidated entity is severally liable	–	–	–	–

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 21

Non-current assets and disposal groups classified as held for sale continued

(c) For associates and joint ventures classified as held for sale, financial information is as follows:

Consolidated entity's share of:

Assets	324	61	-	-
Liabilities	245	37	-	-
Revenues	-	12	-	-
(Loss)/profit after tax	(1)	1	-	-

Note 22

Due to banks

OECD banks	8,360	9,505	6,922	7,393
Clearing houses ¹	43	90	-	-
Other	1,524	2,263	-	-
Total due to banks	9,927	11,858	6,922	7,393

¹ Amounts due to clearing houses are settled on the next business day.

Note 23

Cash collateral on securities lent and repurchase agreements

Central banks	2,776	729	-	-
Governments	-	101	-	-
Financial institutions	4,590	3,067	-	-
Other	124	56	-	-
Total cash collateral on securities lent and repurchase agreements	7,490	3,953	-	-

Note 24

Trading portfolio liabilities

Listed equity securities	3,892	2,059	-	-
Corporate securities	819	12	-	-
Commonwealth government securities	434	78	-	-
Other government securities	287	12	-	-
Total trading portfolio liabilities	5,432	2,161	-	-

Note 25

Debt issued at amortised cost

Debt issued at amortised cost ¹	42,614	48,270	3,154	-
Total debt issued at amortised cost	42,614	48,270	3,154	-

¹ Included within this balance are amounts payable to SPE note holders of \$14,419 million (2009: \$20,131 million). The consolidated entity has not had any defaults of principal, interest or other breaches with respect to its debt during the periods reported.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 26

Other financial liabilities at fair value through profit or loss

Debt issued at fair value	1,691	2,265	-	-
Equity linked notes	2,722	3,938	-	-
Total other financial liabilities at fair value through profit or loss	4,413	6,203	-	-

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

Australian dollars	18,428	25,260	414	-
United States dollars	16,847	16,416	2,740	-
Canadian dollars	5,789	3,607	-	-
Euros	1,654	4,081	-	-
South African rand	1,565	2,212	-	-
Japanese yen	1,350	683	-	-
Great British pounds	547	905	-	-
Hong Kong dollars	386	626	-	-
Korean won	196	97	-	-
Singapore dollars	177	492	-	-
New Zealand dollars	88	94	-	-
Total by currency	47,027	54,473	3,154	-

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

Note 27

Other liabilities

Due to brokers and customers ¹	5,535	4,629	-	-
Creditors	4,889	3,464	-	-
Accrued charges and sundry provisions	1,895	2,054	-	-
Other	360	195	-	-
Total other liabilities	12,679	10,342	-	-

¹ Amounts due to brokers and customers are payable within three working days of the relevant trade date.

Note 28

Provisions

Provision for annual leave	100	94	-	-
Provision for long service leave	73	66	-	-
Provision for other employee entitlements	11	12	-	-
Provision for dividends	7	17	-	-
Total provisions	191	189	-	-

Notes to the financial statements

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Note 29

Capital management strategy

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

The consolidated entity's capital management objectives are to:

- Continue to support the consolidated entity's credit rating;
- Ensure sufficient capital resource to support the consolidated entity's business and operational requirements;
- Maintain sufficient capital to exceed externally imposed capital requirements; and
- Safeguard the consolidated entity's ability to continue as a going concern.

The consolidated entity's capital management strategy uses both the internal and external measures of capital. Internally, an economic capital model (ECM) has been developed to quantify the consolidated entity's aggregate level of risk. The ECM is used in the consolidated entity to support business decision making, including deciding the required level of capital, the setting of risk appetite and as a risk adjusted performance measure.

The consolidated entity is subject to minimum capital requirements externally imposed by APRA.

A subsidiary of the Company, MBL, is accredited by APRA to apply the Basel II Foundation Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk.

Regulatory capital requirements are measured at three levels of consolidation within the consolidated entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, funds management, non-financial operations and special purpose vehicles. Level 3 consists of Level 2 group plus the Non-Banking Group. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets (RWAs) of 8 per cent at both Level 1 and Level 2, with at least 4 per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. Macquarie internal capital policy set by the Board requires capital floors above this regulatory required level. Under the Non-Operating Holding Company structure, APRA has imposed minimum regulatory capital requirements calculated as the sum of the dollar value of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of RWAs plus Tier 1 deductions using prevailing APRA ADI Prudential Standards; and
- The non-ADI group capital requirement, using the consolidated entity's ECM. Transactions internal to the consolidated entity are excluded.

The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The consolidated entity's Level 3 eligible capital is defined by APRA as Group Capital (ordinary equity plus reserves plus hybrids) less regulatory adjustments required for the Banking Group, less certain reserves of the Non-Banking Group.

The consolidated entity has satisfied its externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the year.

Note 30

Loan capital

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie Convertible Preference Securities (Macquarie CPS) at face value of \$100 each. These instruments are non-cumulative and unsecured and may be resold, mandatorily converted into Macquarie ordinary shares (subject to certain conditions being satisfied) or redeemed on 30 June 2013. The CPS bear fixed-rate coupons at 11.095 per cent per annum, paid semi-annually until 30 June 2013, whereby a floating rate will apply.

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.

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

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
At call	-	6	-	-
15 September 2009	-	3	-	-
30 June 2013	600	600	-	-
15 September 2014	-	301	-	-
12 November 2014	11	-	-	-
18 September 2015	239	489	-	-
19 September 2016	330	176	-	-
6 December 2016	516	667	-	-
31 May 2017	319	305	-	-
Total subordinated debt and Macquarie Convertible Preference Securities¹	2,015	2,547	-	-
Reconciliation of subordinated debt by major currency:				
Australian dollars	918	968	-	-
Euros	527	668	-	-
Great British pounds	331	413	-	-
United States dollars	239	492	-	-
Canadian dollars	-	6	-	-
Total subordinated debt and Macquarie Convertible Preference Securities by currency¹	2,015	2,547	-	-

¹ Balance disclosed excludes \$7 million (2009: \$9 million) of directly attributable costs related to the issue of Macquarie CPS.

The consolidated entity has not had any defaults of principal, interest or other breaches with respect to its loan capital during the period reported.

The carrying value of subordinated debt at fair value through profit or loss at 31 March 2010 is \$14 million higher (2009: \$236 million lower) than the contractual amount at maturity as credit risk and current market interest rates are factored into the determination of fair value.

In accordance with APRA guidelines, Macquarie Bank Limited, a subsidiary, includes the applicable portion of its loan capital principal as Tier 2 capital.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010 Number of Shares	Consolidated 2009 Number of Shares	Consolidated 2010 \$m	Consolidated 2009 \$m
Note 31				
Contributed equity				
Ordinary share capital				
Opening balance of fully paid ordinary shares	283,438,000	274,570,840	4,906	4,534
On-market purchase of shares pursuant to the Macquarie Group Staff Share Acquisition Plan (MGSSAP) within the range of \$47.52 and \$50.96 per share	-	(147,365)	-	(7)
Allocation of shares to employees pursuant to the MGSSAP within the range of \$47.52 and \$50.96 per share	-	147,365	-	7
On-market purchase of shares pursuant to the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) at \$39.96 (31 March 2009: within the range of \$28.35 and \$50.96) per share	(3,639)	(10,902)	-	-
Allocation of shares to employees pursuant to the NEDSAP at \$39.96 (31 March 2009: within the range of \$28.35 and \$50.96) per share	3,639	10,902	-	-
MGSSAP share issue within the range of \$33.49 and \$47.99 shares (31 March 2009: \$25.61 and \$56.40) per share	28,585	612,618	1	34
Issue of shares on exercise of options	3,293,810	2,638,177	111	81
Employee Share Plan (ESP) share issue at \$52.04 (31 March 2009: \$29.36) per share	31,065	48,348	2	1
Dividend Reinvestment Plan (DRP) share issue within the range of \$33.24 and \$47.77 (31 March 2009: \$29.06 and \$50.95) per share	2,738,136	5,364,444	120	223
Issue of shares pursuant to an institutional private placement at \$27.00 per share on 8 May 2009	20,000,000	-	533	-
Issue of 161,679 (31 March 2009: 196,573) shares on retraction of exchangeable shares at \$80.30 per share	161,679	196,573	13	16
Share Purchase Plan (SPP) share issue at \$26.60 per share	25,151,336	-	668	-
Issue of 6,000 (31 March 2009: 7,000) shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc employees	6,000	7,000	-	-
Issue of shares to Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust) at \$46.60 per share	9,395,660	-	438	-
Transfer from Directors' Profit Share (DPS) liability on settlement of obligation with own equity	-	-	180	-
Transfer from share based payments reserve for employee options that have been exercised	-	-	18	17
Closing balance of fully paid ordinary shares	344,244,271	283,438,000	6,990	4,906

As at 31 March 2010, 43,545,335 (2009: 51,675,990) options granted to employees over unissued ordinary shares had not been exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 36 - Employee equity participation. Disclosures regarding the Company's DRP are included in note 5 - Dividends paid and distributions paid or provided.

	Company 2010 Number of Shares	Company 2009 Number of Shares	Company 2010 \$m	Company 2009 \$m
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Note 31

Contributed equity continued

Ordinary share capital

Opening balance of fully paid ordinary shares	283,438,000	274,570,840	7,729	7,364
On-market purchase of shares pursuant to the Macquarie Group Staff Share Acquisition Plan (MGSSAP) within the range of \$47.52 and \$50.96 per share	-	(147,365)	-	(7)
Allocation of shares to employees pursuant to the MGSSAP within the range of \$47.52 and \$50.96 per share	-	147,365	-	7
On-market purchase of shares pursuant to the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) at \$39.96 (31 March 2009: within the range of \$28.35 and \$50.96) per share	(3,639)	(10,902)	-	-
Allocation of shares to employees pursuant to the NEDSAP at \$39.96 (31 March 2009: within the range of \$28.35 and \$50.96) per share	3,639	10,902	-	-
MGSSAP share issue within the range of \$33.49 and \$47.99 shares (31 March 2009: \$25.61 and \$56.40) per share	28,585	612,618	1	34
Issue of shares on exercise of options	3,293,810	2,638,177	111	81
Employee Share Plan (ESP) share issue at \$52.04 (31 March 2009: \$29.36) per share	31,065	48,348	2	1
Dividend Reinvestment Plan (DRP) share issue within the range of \$33.24 and \$47.77 (31 March 2009: \$29.06 and \$50.95) per share	2,738,136	5,364,444	120	223
Issue of shares pursuant to an institutional private placement at \$27.00 per share on 8 May 2009	20,000,000	-	533	-
Issue of 161,679 (31 March 2009: 196,573) shares on retraction of exchangeable shares at \$80.30 per share	161,679	196,573	6	9
Share Purchase Plan (SPP) share issue at \$26.60 per share	25,151,336	-	668	-
Issue of 6,000 (31 March 2009: 7,000) shares for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc employees	6,000	7,000	-	-
Issue of shares to Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust) at \$46.60 per share	9,395,660	-	438	-
Transfer from Directors' Profit Share (DPS) liability on settlement of obligation with own equity	-	-	180	-
Transfer from share based payments reserve for expensed options that have been exercised	-	-	18	17
Closing balance of fully paid ordinary shares	344,244,271	283,438,000	9,806	7,729

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Note 31				
Contributed equity continued				
Treasury shares¹	(443)	(2)	(438)	–
Exchangeable shares				
Balance at the beginning of the financial year	116	133	–	–
Issue of 2,036,705 exchangeable shares at \$50.80 per share, exchangeable to shares in Macquarie Group Limited on a one-for-one basis ²	54	–	–	–
Issue of 152,472 exchangeable shares with retention conditions at \$50.80 per share, exchangeable to shares in Macquarie Group Limited on a one-for-one basis ²	2	–	–	–
Retraction of 161,679 (31 March 2009: 196,573) exchangeable shares at \$80.30 per share, exchangeable to shares in Macquarie Group Limited on a one-for-one basis ³	(13)	(16)	–	–
Cancellation of 142,386 (31 March 2009: 12,347) exchangeable shares at \$80.30 per share	(11)	(1)	–	–
Cancellation of 345,148 (31 March 2009: nil) exchangeable shares at \$50.80 per share	(11)	–	–	–
Cancellation of 55,059 (31 March 2009: nil) exchangeable shares with retention conditions at \$50.80 per share	–	–	–	–
Total exchangeable shares at the end of the financial year	137	116	–	–

¹ During the current year, the Company introduced Macquarie Group Employee Retained Equity Plan (MEREP), which grants RSUs, DSUs and PSUs to eligible staff. Under MEREP the staff retained profit share will be held in the shares of the Company by Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust) and presented as Treasury shares. For further information regarding terms and conditions of MEREP refer to note 36 – Employee equity participation.

² The exchangeable shares were issued by a subsidiary in August 2009 as consideration for the acquisition of Tristone Capital Global Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. They are eligible to be exchanged on a one-for-one basis for shares in Macquarie Group Limited (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to Macquarie Group Limited dividends during their legal life. The exchangeable shares must be exchanged by August 2019 and carry no Macquarie Group Limited voting rights.

There are also retention agreements in place with key former Tristone employees, under which new Macquarie Group Limited shares may be allocated within five years from the date of acquisition. As at 31 March 2010, the total number of retention options remaining is 131,297.

³ The exchangeable shares were issued by a subsidiary in November 2007 as consideration for the acquisition of Orion Financial Inc. and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. They are eligible to be exchanged on a one-for-one basis for shares in Macquarie Group Limited (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to Macquarie Group Limited dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no Macquarie Group Limited voting rights.

There are also retention agreements in place with key former Orion employees, under which new Macquarie Group Limited shares may be allocated within five years from the date of acquisition. As at 31 March 2010, the total number of retention options remaining are 127,000.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Note 32				
Reserves, retained earnings and minority interests				
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	(34)	(19)	-	-
Currency translation differences arising during the financial year, net of hedge	(286)	(15)	-	-
Balance at the end of the financial year	(320)	(34)	-	-
Available for sale reserve				
Balance at the beginning of the financial year	(3)	223	-	-
Revaluation movement for the financial year, net of tax	133	(294)	-	-
Transfer to income statement for impairment	1	118	-	-
Transfer to profit on realisation	(5)	(50)	-	-
Balance at the end of the financial year	126	(3)	-	-
Share based payments reserve				
Balance at the beginning of the financial year	338	227	153	42
Option expense for the financial year	110	128	-	-
MEREP expense for the financial year	114	-	-	-
Options issued to subsidiary employees (note 34)	-	-	110	128
MEREP issued to subsidiary employees (note 34)	-	-	114	-
Transfer to share capital on exercise of options	(18)	(17)	(18)	(17)
Balance at the end of the financial year	544	338	359	153
Cash flow hedging reserve				
Balance at the beginning of the financial year	(217)	34	-	-
Revaluation movement for the financial year, net of tax	178	(251)	-	-
Balance at the end of the financial year	(39)	(217)	-	-
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	(67)	(9)	-	-
Share of reserves during the financial year	36	(58)	-	-
Balance at the end of the financial year	(31)	(67)	-	-
Total reserves at the end of the financial year	280	17	359	153
Retained earnings				
Balance at the beginning of the financial year	3,627	3,718	2,946	16,231
Profit/(loss) attributable to ordinary equity holders of Macquarie Group Limited	1,050	871	363	(12,328)
Dividends paid on ordinary share capital (note 5)	(409)	(962)	(407)	(957)
Balance at the end of the financial year	4,268	3,627	2,902	2,946

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Notes 32				
Reserves, retained earnings and minority interests continued				
Minority interests				
Macquarie Income Preferred Securities¹				
Proceeds on issue of Macquarie Income Preferred Securities ²	107	894	-	-
Less issue costs	(1)	(10)	-	-
	106	884	-	-
Less securities financed	-	(382)	-	-
	106	502	-	-
Current year profit	8	45	-	-
Distribution provided on Macquarie Income Preferred Securities (note 5)	(8)	(45)	-	-
Foreign currency translation reserve	(39)	(104)	-	-
Total Macquarie Income Preferred Securities	67	398	-	-
Macquarie Income Securities³				
4,000,000 Macquarie Income Securities of \$100 each	400	400	-	-
Less costs for original placement	(9)	(9)	-	-
Total Macquarie Income Securities	391	391	-	-
Other minority interests				
Ordinary share capital	40	57	-	-
Preference share capital	-	5	-	-
Foreign currency translation reserve	(13)	8	-	-
Retained earnings	52	37	-	-
Total other minority interests	79	107	-	-
Total minority interests	537	896	-	-

¹ On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. MIPS – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at MGL's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. The first coupon was paid on 15 April 2005. The instruments are reflected in the consolidated entity's financial statements as a minority interest, with distribution entitlements being included with the minority interest share of profit after tax.

² On 11 September 2009, the various interests in MIPS held by Macquarie Capital Finance (Dubai) Limited were redeemed.

³ The Macquarie Income Securities issued by MBL, a subsidiary, were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 per cent p.a. (2009: 1.7 per cent p.a.). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

These instruments are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation* and reflected in the consolidated entity's financial statements as minority interest, with distribution entitlements being included with minority interests' share of profit after tax.

Distribution policies for these instruments are included in note 5 – Dividends paid and distributions paid or provided.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 33

Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

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

Cash and balances with central banks	-	141	-	-
Due from other financial institutions				
Due from banks ¹	7,940	12,208	-	-
Trading securities ²	3,833	12,146	-	-
Cash and cash equivalents at the end of the financial year	11,773	24,495	-	-

Reconciliation of profit/(loss) from ordinary activities after income tax to net cash flows (used in)/from operating activities

Profit/(loss) from ordinary activities after income tax	1,093	974	363	(12,328)
Adjustments to profit/(loss) from ordinary activities				
Depreciation and amortisation	445	477	-	-
Dividends received/receivable from associates	412	472	-	-
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	146	(111)	-	-
Gain on acquiring, disposing, and change in ownership interest in subsidiaries and businesses held for sale	(393)	(323)	-	-
Gain on repurchase of subordinated debt	(55)	-	-	-
Impairment charge on financial and non-financial assets	705	1,798	-	13,163
Interest on available for sale financial assets	(288)	(617)	-	-
Loss on disposal of property, plant and equipment	-	16	-	-
Net gains on sale of investment securities available for sale and associates and joint ventures	(146)	(224)	-	-
Sale of management rights	(428)	-	-	-
Share based payment expense	224	128	-	-
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	230	(74)	-	-
Changes in assets and liabilities				
Change in amount due from subsidiaries under tax funding agreement	-	-	(408)	334
Change in dividends receivable	138	47	-	-
Change in fees and non-interest income receivable	152	110	-	-
Change in fees and commissions payable	21	(57)	-	-
Change in tax balances	(87)	(318)	337	(501)
Change in provisions for employment entitlements	12	8	-	-
Change in loan assets granted	336	3,553	404	3,231
Change in loan payable to a subsidiary	-	-	(2,551)	(5,000)
Change in debtors, prepayments, accrued charges and creditors	1,004	(3,592)	3	-
Change in net trading portfolio assets and liabilities and net derivative financial instruments	266	4,432	-	-
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	(8,632)	(1,289)	2,632	2,633
Change in life investment contract receivables	(1,114)	(250)	-	-
Net cash flows (used in)/from operating activities	(5,959)	5,160	780	1,532

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

² Includes certificates of deposit, bank bills and other short-term debt securities as per note 1(xxi) – Summary of significant accounting policies.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 34

Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of management and administration services.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Company except when offsetting reflects the substance of the transaction or event.

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

In the financial year ended 31 March 2008 the Company received a \$10.1 billion intra-group loan from MBL of which \$1,249 million (2009: \$3,800 million) remained outstanding at the balance sheet date. This facility is an unsecured term loan to be repaid by December 2012.

A list of material subsidiaries is set out in note 19 – Investments in subsidiaries.

The Company as the ultimate parent entity of the Macquarie Group, is the head entity of the tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in note 1(vii) – Summary of significant accounting policies. During the year ended 31 March 2010, current tax liabilities of subsidiaries assumed by MGL as the head entity of the tax consolidated group amounted to \$558 million (2009: \$994 million). As at 31 March 2010, the amount receivable by the Company under the tax funding agreement with the tax consolidated entities is \$194 million (2009: \$214 million payable). This balance is included in Due from subsidiaries in the Company's separate statement of financial position.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Interest income received/receivable (note 2)	–	–	453	842
Interest expense paid/payable (note 2)	–	–	(93)	(524)
Share based payments to employees of subsidiaries (note 32)	–	–	(224)	(128)
Dividends and distributions (note 2)	–	–	380	858
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	–	–	11,643	10,390
Amounts payable ¹	–	–	(2,357)	(3,919)

¹ As described in note 1(xx) – Summary of significant accounting policies, the Company has recognised a liability of \$91 million (2009: \$nil) for amounts received in advance as at 31 March 2010 from subsidiaries for MEREP offered to their employees and yet to be recognised as a share-based payment expense by the subsidiary. To the extent that the awards vest, this amount will be retained by the Company as compensation for issuing and releasing the shares to the subsidiary employees.

Note 34

Related party information continued

Associates and joint ventures

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

During the financial year, the following transactions occurred with associates and joint ventures:

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Interest income received/receivable	6	21	-	-
Fee and commission income ¹	683	969	-	-
Other income	3	7	-	-
Gains on sale of securities ²	57	48	-	-
Dividends and distributions ³ (note 17)	412	472	-	-
Brokerage and commission expense	(7)	(19)	-	-

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

² Gains on sale of securities are shown after elimination of unrealised profits/losses calculated by reference to the consolidated entity's ownership interest in the associate.

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

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the consolidated entity's net investment in associates, disclosed in note 17 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Amounts receivable	325	711	-	-
Amounts payable	(112)	-	-	-

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 2010

continued

Note 35

Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of MGL during the financial years ended 31 March 2010 and 31 March 2009, unless indicated.

Executive Directors

L.G. Cox, AO	(retired 29 July 2009)
N.W. Moore ¹	Managing Director and Chief Executive Officer
A.E. Moss, AO	(retired 24 May 2008)

Non-Executive Directors

D.S. Clarke, AO ²	Non-Executive Chairman
M.J. Hawker	(appointed 22 March 2010)
P.M. Kirby	
C.B. Livingstone, AO	
H.K. McCann, AM ³	
J.R. Niland, AC	
H.M. Nugent, AO	
P.H. Warne ⁴	

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MGL during the past two financial years ended 31 March 2010 and 31 March 2009, unless otherwise indicated.

Executives

S.D. Allen ¹	Group Head, Risk Management Group (appointed 28 September 2009)
J.K. Burke	Former Joint Group Head, Macquarie Securities Group (retired 26 February 2009)
M. Carapiet ¹	Group Head, Macquarie Capital
A.J. Downe ¹	Group Head, Fixed Income, Currencies and Commodities Group
R. Laidlaw ¹	Group Head, Macquarie Securities Group (appointed 10 June 2008)
P.J. Maher ¹	Group Head, Banking and Financial Services Group
N.R. Minogue	Former Group Head, Risk Management Group (retired 30 November 2009)
W.R. Sheppard ¹	Deputy Managing Director
G.C. Ward ¹	Chief Financial Officer
S. Wikramanayake ¹	Group Head, Macquarie Funds Group (appointed 10 June 2008)

¹ Members of the consolidated entity's Executive Committee as at 29 April 2010.

² On 31 August 2009, Mr Clarke resumed full duties as Chairman following a leave of absence which commenced on 27 November 2008.

³ Mr McCann was appointed Acting Chairman in Mr Clarke's absence (from 27 November 2008 to 30 August 2009).

⁴ Mr Warne was appointed Acting Chairman of the Board Risk Committee in Mr Clarke's absence (from 27 November 2008) and was appointed Chairman on 27 August 2009.

It is important to note that the Company's Non-Executive Directors are specifically required to be categorised as Key Management Personnel for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider that they are part of 'management'.

The remuneration arrangements for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report on pages 67 to 125.

Note 35

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for Key Management Personnel.

	Salary and fees (including superannuation)	Performance related remuneration	Other benefits	Short-term employee benefits	Long-term employee benefits ¹	Share based payments	Total remuneration
	\$	\$	\$	Total short-term employee benefits	Restricted profit share	Shares/ options	\$
Executive Remuneration							
2010	4,175,424	21,171,591	–	25,347,015	5,219,357	14,598,152	45,164,524
2009	4,683,157	17,208,685	–	21,891,842	(19,898,260)	9,371,387	11,364,969
Non-Executive Remuneration							
2010	2,652,252	–	36,950	2,689,202	–	–	2,689,202
2009	2,430,950	–	49,350	2,480,300	–	–	2,480,300

¹ Includes earnings or losses on restricted profit share.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 35

Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties

The following tables set out details of options held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. Further details in relation to the MGESOP are disclosed in note 36 – Employee equity participation.

For the financial year ended 31 March 2010

Name and position	Number of options held at 1 April 2009 ¹	Options exercised during the financial year	Options not able to be exercised due to performance hurdles not met ²	Other changes ³	Number of options able to be exercised held at 31 March 2010 ⁴	Number of options vested during the financial year	Number of options vested at 31 March 2010 ⁴
Executive Directors							
N.W. Moore	776,634	(48,334)	(104,799)	–	623,501	56,668	223,333
Executives							
S.D. Allen ⁵	218,725	–	–	–	218,725	–	90,303
M. Carapiet	550,567	–	(89,786)	–	460,781	40,604	128,993
A.J. Downe	426,334	–	(56,666)	(28,334)	341,334	16,668	78,333
R. Laidlaw	372,374	–	–	(24,449)	347,925	70,974	133,600
P.J. Maher	135,001	–	(18,333)	(13,334)	103,334	8,334	26,667
W.R. Sheppard	224,334	–	(30,000)	(33,334)	161,000	16,668	65,000
G.C. Ward	156,834	(13,334)	(20,000)	–	123,500	10,000	40,000
S. Wikramanayake	178,275	–	–	–	178,275	36,591	58,119
Former							
L.G. Cox ⁶	32,265	–	(6,081)	(26,184)	–	–	–
N.R. Minogue ⁷	170,834	–	(23,332)	(100,836)	46,666	11,668	46,666

¹ Or date of appointment if later.

² Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2009 were not achieved and therefore the options did not vest. These options are not exercisable and the related expense previously recognised on these option grants were reversed in the prior year. The value of those options that lapsed calculated on 1 July 2009 was \$nil.

³ Vested options sold under facility provided by an external party unless otherwise noted.

⁴ Or date of retirement if earlier.

⁵ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁶ Mr Cox retired from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of retirement. Other changes include sale of options and forfeiture on retirement.

⁷ Mr Minogue retired from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of retirement. Other changes include sale of options and forfeiture on retirement.

Note 35

Key Management Personnel disclosure continued

The following tables set out details of options held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. The opening balance relates to holdings over MBL options. Further details in relation to the MGESOP are disclosed in note 36 – Employee equity participation.

For the financial year ended 31 March 2009

Name and position	Number of options held at 1 April 2008 ¹	Options granted during the financial year	Options exercised during the financial year	Other changes ²	Number of options held at 31 March 2009 ³	Number of options vested during the financial year	Number of options vested at 31 March 2009 ³
Executive Directors							
L.G. Cox	32,265	–	–	–	32,265	7,754	15,227
N.W. Moore	532,734	243,900	–	–	776,634	158,333	214,999
A.E. Moss ⁴	670,400	–	–	–	670,400	–	170,400
Executives							
J.K. Burke ⁵	224,678	–	–	(173,012)	51,666	70,000	51,666
M. Carapiet	383,067	200,000	(32,500)	–	550,567	120,889	88,389
A.J. Downe	248,334	178,000	–	–	426,334	73,333	89,999
R. Laidlaw ⁶	247,725	135,000	(10,351)	–	372,374	62,586	87,075
P.J. Maher	85,001	50,000	–	–	135,001	31,667	31,667
N.R. Minogue	118,334	52,500	–	–	170,834	36,666	48,332
W.R. Sheppard	193,334	51,000	–	(20,000)	224,334	48,334	81,666
G.C. Ward	103,334	53,500	–	–	156,834	33,334	43,334
S. Wikramanayake ⁶	107,575	80,000	(9,300)	–	178,275	30,828	21,528

¹ Or date of appointment if later.

² Vested options sold under facility provided by an external party unless otherwise noted.

³ Or date of retirement if earlier.

⁴ Mr Moss retired as a Key Management Person on 24 May 2008. His balance at 31 March 2009 represents holdings at date of retirement.

⁵ Mr Burke forfeited 108,334 options on his retirement date 26 February 2009.

⁶ Mr Laidlaw and Ms Wikramanayake were both appointed to the Executive Committee on 10 June 2008. The opening balance at 1 April 2008 represents holdings at date of appointment. Movements are from this date.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 35

Key Management Personnel disclosure continued

MEREP RSU Awards of Key Management Personnel and their related parties

The following tables set out details of MEREP RSU awards held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis. Further details in relation to the MEREP RSU awards are disclosed in note 36 – Employee equity participation.

For the financial year ended 31 March 2010

Name and position	Number of RSU awards held at 1 April 2009 ¹	RSU awards granted during the financial year ²	RSU awards exchanged during the financial year	Number of RSU awards held at 31 March 2010 ³	Number of RSU awards vested during the financial year	Number of RSU awards vested at 31 March 2010 ³
Executive Directors						
N.W. Moore	–	466,460	–	466,460	–	–
Executives						
S.D. Allen ⁴	–	113,565	–	113,565	–	–
M. Carapiet	–	34,661	–	34,661	–	–
A.J. Downe	–	80,877	–	80,877	–	–
R. Laidlaw	–	126,778	–	126,778	–	–
P.J. Maher	–	88,468	–	88,468	–	–
W.R. Sheppard	–	108,729	–	108,729	–	–
G.C. Ward	–	92,688	–	92,688	–	–
S. Wikramanayake ⁵	–	69,028	–	69,028	–	–

¹ Or date of appointment if later.

² As discussed in note 1 (xx) – Summary of significant accounting policies, RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, RSUs disclosed as granted above relate to 2009 and include pre-2009 in relation to transition awards.

³ Or date of retirement if earlier.

⁴ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment. 88,406 of these awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares, however these awards have the same economic benefits as an RSU held in the MEREP.

⁵ 49,330 of these awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares however these awards have the same economic benefits as an RSU held in the MEREP.

There were no MEREP RSU Equity awards granted during the 12 months to 31 March 2009.

Note 35

Key Management Personnel disclosure continued

MEREP PSU Awards of Key Management Personnel and their related parties

The following tables set out details of MEREP PSU awards held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis. Further details in relation to the MEREP PSU awards are disclosed in note 36 – Employee equity participation.

For the financial year ended 31 March 2010

Name and position	Number of PSU awards held at 1 April 2009 ¹	PSU awards granted during the financial year ²	PSU awards exchanged during the financial year	Number of PSU awards held at 31 March 2010 ³	Number of PSU awards vested during the financial year	Number of PSU awards vested at 31 March 2010 ³
Executive Directors						
N.W. Moore	–	38,300	–	38,300	–	–
Executives						
S.D. Allen ⁴	–	–	–	–	–	–
M. Carapiet	–	34,300	–	34,300	–	–
A.J. Downe	–	53,500	–	53,500	–	–
R. Laidlaw	–	20,700	–	20,700	–	–
P.J. Maher	–	13,000	–	13,000	–	–
W.R. Sheppard	–	3,900	–	3,900	–	–
G.C. Ward	–	26,700	–	26,700	–	–
S. Wikramanayake	–	11,500	–	11,500	–	–

¹ Or date of appointment if later.

² As discussed in note 1(xx) – Summary of significant accounting policies, PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. Consequently, PSUs disclosed as granted above relate to 2009.

³ Or date of retirement if earlier.

⁴ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment. Movements are from this date.

There were no MEREP PSU Equity awards granted during the 12 months to 31 March 2009.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 35

Key Management Personnel disclosure continued

Shareholdings of Key Management Personnel and their related parties

The following tables set out details of fully paid ordinary shares of the Company held during the financial year by Key Management Personnel including their related parties, on a consolidated entity basis.

For the financial year ended 31 March 2010

Name and position	Number of shares held at 1 April 2009 ¹	Shares received on exercise of options	Other changes ²	Number of shares held at 31 March 2010 ³
Executive Directors				
N.W. Moore	1,197,411	48,334	–	1,245,745
Non-Executive Directors				
D.S. Clarke ⁴	704,914	–	(431,197)	273,717
M.J. Hawker ⁵	4,103	–	–	4,103
P.M. Kirby	18,996	–	4,202	23,198
C.B. Livingstone	8,980	–	3,020	12,000
H.K. McCann	11,359	–	2,126	13,485
J.R. Niland	9,559	–	563	10,122
H.M. Nugent	20,613	–	563	21,176
P.H. Warne	15,821	–	–	15,821
Executives				
S.D. Allen ⁶	38,025	–	–	38,025
M. Carapiet	680,750	–	(93,134)	587,616
A.J. Downe	124,102	–	(45,224)	78,878
R. Laidlaw	38,475	–	560	39,035
P.J. Maher	106,175	–	(32,000)	74,175
W.R. Sheppard	267,790	–	(18,481)	249,309
G.C. Ward	15,345	13,334	(13,334)	15,345
S. Wikramanayake	326,867	–	–	326,867
Former				
L.G. Cox ⁷	269,812	–	–	269,812
N.R. Minogue ⁸	136,620	–	–	136,620

¹ Or date of appointment if later.

² Includes on-market acquisitions and disposals.

³ Or date of retirement if earlier.

⁴ Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

⁵ Mr Hawker was appointed to the Board on 22 March 2010. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁶ Mr Allen was appointed to the Executive Committee on 28 September 2009. The opening balance on 1 April 2009 represents holdings at the date of appointment.

⁷ Mr Cox retired from the Board on 29 July 2009. Balance at 31 March 2010 represents holdings at date of retirement.

⁸ Mr Minogue retired from the Executive Committee on 30 November 2009. Balance at 31 March 2010 represents holdings at date of retirement.

Note 35

Key Management Personnel disclosure continued

Shareholdings of Key Management Personnel and their related parties continued

For the financial year ended 31 March 2009

Name and position	Number of shares held at 1 April 2008 ¹	Shares received on exercise of options	Other changes ²	Number of shares held at 31 March 2009 ³
Executive Directors				
L.G. Cox	269,812	–	–	269,812
N.W. Moore	1,030,510	–	166,901	1,197,411
A.E. Moss ⁴	404,236	–	–	404,236
Non-Executive Directors				
D.S. Clarke ⁵	704,868	–	46	704,914
P.M. Kirby	9,772	–	9,224	18,996
C.B. Livingstone	8,432	–	548	8,980
H.K. McCann	11,359	–	–	11,359
J.R. Niland	7,959	–	1,600	9,559
H.M. Nugent	20,613	–	–	20,613
P.H. Warne	9,077	–	6,744	15,821
Executives				
J.K. Burke ⁶	31,657	–	30,902	62,559
M. Carapiet	531,274	32,500	116,976	680,750
A.J. Downe	176,036	–	(51,934)	124,102
R. Laidlaw ⁷	28,124	10,351	–	38,475
P.J. Maher	125,323	–	(19,148)	106,175
N.R. Minogue	157,312	–	(20,692)	136,620
W.R. Sheppard	261,313	–	6,477	267,790
G.C. Ward	56,620	–	(41,275)	15,345
S. Wikramanayake ⁷	252,546	9,300	65,021	326,867

¹ Or date of appointment if later.

² Includes on-market acquisitions and disposals.

³ Or date of retirement if earlier.

⁴ Mr Moss retired as a Key Management Person on 24 May 2008. His balance at 31 March 2009 represents holdings at date of retirement.

⁵ Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

⁶ Mr Burke retired on 26 February 2009. His balance at 31 March 2009 represents holdings at date of retirement.

⁷ Mr Laidlaw and Ms Wikramanayake were both appointed to the Executive Committee on 10 June 2008. The balance at 1 April 2008 represents holdings at date of appointment. Movements are from this date.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 35

Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April \$'000	Interest charged \$'000	Write-down \$'000	Closing balance at 31 March \$'000	Number in consolidated entity at 31 March
Total for Key Management Personnel and their related parties	2010	42,861	3,045	–	31,691	11
	2009	62,518	4,512	–	42,861	10
Total for Key Management Personnel	2010	22,729	863	–	12,422	5
	2009	44,506	2,504	–	22,729	5

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

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

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

For the financial year ended 31 March 2010

Name and position	Balance at 1 April 2009 ¹ \$'000	Interest charged ² \$'000	Write-downs \$'000	Balance at 31 March 2010 ³ \$'000	Highest balance during financial year \$'000
Executive Directors					
N.W. Moore	5,313	330	–	5,274	5,313
Non-Executive Directors					
D.S. Clarke ⁴	37,290	2,700	–	26,160	38,975
Executives					
R. Laidlaw	238	14	–	238	238

¹ Or date of appointment if later.

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

³ Or date of retirement if earlier.

⁴ Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

Note 35

Key Management Personnel disclosure continued

For the financial year ended 31 March 2009

Name and position	Balance at 1 April 2008 ¹ \$'000	Interest charged ² \$'000	Write-downs \$'000	Balance at 31 March 2009 ³ \$'000	Highest balance during financial year \$'000
Executive Directors					
N.W. Moore	12,259	376	–	5,313	12,570
Non-Executive Directors					
D.S. Clarke ⁴	34,826	3,352	–	37,290	37,798
Executives					
A.J. Downe	1,847	105	–	–	1,847
R. Laidlaw ⁵	238	10	–	238	238
P.J. Maher	4,912	499	–	20	5,572
N.R. Minogue	4,249	42	–	–	4,339
G.C. Ward	4,406	127	–	–	4,406

¹ Or date of appointment if later.

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

³ Or date of retirement if earlier.

⁴ Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

⁵ Mr Laidlaw was appointed to the Executive Committee on 10 June 2008. The balance at 1 April 2008 represents holdings at date of appointment. Movements are from this date.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 35

Key Management Personnel disclosure continued

Other transactions with Key Management Personnel and their related parties

Certain Key Management Personnel and their related parties have acquired Infrastructure Bonds and similar products from subsidiaries within the consolidated entity, which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to a legal right of set-off and as such are not recognised for financial reporting purposes. The only amounts recognised by the consolidated entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	10,123	14,538

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

Executive Directors

N.W. Moore

Non-Executive Directors

P.M. Kirby

Executives

S. Allen (2010 only), M. Carapiet, A.J. Downe, R. Laidlaw, P.J. Maher, W.R. Sheppard, G.C. Ward, S. Wikramanayake (2010 only)

Former Directors

L.G. Cox, N.R. Minogue

The following Key Management Personnel (including related parties) have entered a zero cost collar transaction with the consolidated entity and other non-related entities in respect of fully paid ordinary MGL shares. This has the effect of acquiring cash-settled put options against movements in the MGL share price below nominated levels and disposing of the benefit of any share price movement above the nominated level.

Transactions with the consolidated entity

Name and position	Description	Number of shares 2010	Number of shares 2009
Non-Executive Directors			
D.S. Clarke	Maturing May 2009	–	361,163
	Maturing August 2009	–	25,196
	Maturing June 2010	213,517	213,517
Executives			
A.J. Downe	Maturing July 2010	21,905	–

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

Note 36

Employee equity participation

Option Plan

In November 1995, MBL introduced an Employee Share Option Plan, as a replacement for its now closed partly paid share scheme. On 13 November 2007, the date of the Macquarie Group Restructure, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (MGESOP). MGL has suspended new offers under the MGESOP under the new remuneration arrangements which were the subject of shareholder approvals obtained at a General Meeting of MGL in December 2009. The last Grant of Options under the MGESOP was on 8 December 2009. Currently MGL does not expect to issue any further Options under the MGESOP.

Previously, the staff eligible to participate in the MGESOP were those of Associate Director level and above and consultants to the consolidated entity. At 31 March 2010 there were 2,821 (2009: 3,052) participants of the MGESOP.

The fair value of each option is estimated on the date of grant using standard option pricing techniques based on the Black-Scholes theory. The following key assumptions have been adopted for grants made in the current financial year:

- risk free interest rate: 5.35 per cent (weighted average) (2009: 6.77 per cent);
- expected life of options: four years (2009: four years);
- volatility of share price: 44 per cent (2009: 24 per cent); and
- dividend yield: 3.47 per cent per annum (2009: 3.47 per cent per annum).

Options now on issue are all five year options over fully paid unissued ordinary shares in the Company and were granted to individuals or the individual's controlled Company or an entity approved under the MGESOP to hold options.

The options were issued for no consideration and were granted at prevailing market prices. The exercise price of recent options granted was generally based on the weighted average market price during the one week up to and including the date of grant of the options.

The following is a summary of options which have been granted pursuant to the MGESOP:

	Number of options 2010	Weighted average exercise price 2010 \$	Number of options 2009	Weighted average exercise price 2009 \$
Outstanding at the beginning of the financial year	51,675,990	59.57	39,035,761	61.23
Granted during the financial year	799,000	37.16	19,488,263	53.11
Forfeited during the financial year	(3,073,464)	60.84	(3,975,064)	63.64
Exercised during the financial year	(3,292,178)	33.63	(2,638,177)	30.74
Lapsed during the year	(2,564,013)	60.69	(234,793)	64.32
Outstanding at the end of the financial year	43,545,335	60.94	51,675,990	59.57
Exercisable at the end of the financial year	16,756,527	64.90	13,245,119	55.32

For options exercised during the financial year the weighted average share price at the date of exercise was \$41.30 (2009: \$50.66).

The range of exercise prices for options outstanding at the end of the financial year was \$17.10 to \$94.48 (2009: \$17.10 to \$94.48).

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Note 36

Employee equity participation continued

Option Plan continued

The weighted average remaining contractual life for the share options outstanding as at 31 March 2010 is 2.24 years (2009: 3.02 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range (\$)	Number of options 2010	Remaining life (years) 2010	Number of options 2009	Remaining life (years) 2009
10 – 20	29,000	3.94	21,000	4.94
20 – 30	320,951	3.86	113,000	4.72
30 – 40	667,746	3.76	3,798,928	0.91
40 – 50	623,513	2.92	981,009	2.69
50 – 60	15,915,168	3.36	17,195,829	4.36
60 – 70	15,724,244	0.94	17,918,231	1.96
70 – 80	9,524,147	2.32	10,711,442	3.34
80 – 90	576,768	1.98	762,963	3.16
90 – 100	163,798	2.21	173,588	3.21
	43,545,335	2.24	51,675,990	3.02

The weighted average fair value of options granted during the financial year was \$11.30 (2009: \$10.60).

The market value of shares issued during the year as a result of the exercise of these options was \$136 million (2009: \$133 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2010 was \$2,058 million (2009: \$1,410 million). No unissued shares, other than those referred to above, are under option under the MGESOP as at the date of this report.

The options 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. For the year ended 31 March 2010, compensation expense relating to the MGESOP totalled \$110 million (2009: \$128 million).

Since 31 March 2010, no options have been exercised, 5,081 options have been forfeited and 123,085 options have lapsed. New option grants have ceased under the MGESOP. MGL has suspended new offers under the MGESOP under the new remuneration arrangements which were the subject of shareholder approvals obtained at a General Meeting of MGL in December 2009. The last grant of options under the MGESOP was on 8 December 2009. Currently MGL does not expect to issue any further options under the MGESOP.

Options granted vest as to one third of each tranche after the second, third and fourth anniversaries of the date of commencement of employment for new starters and, for existing employees, on 1 July two, three and four years after the allocation of the options. Subject to the MGESOP Rules and Macquarie Group's personal dealing policy, options can be exercised after the vesting period during an options exercise period up to expiry. In individual cases, such as where an employee leaves with the Company's agreement towards the end of a vesting period, the Company's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of some or all of the relevant options.

For options granted to the members of MBL's 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 the Company's average annual return on ordinary equity for the three previous financial years is above the 65th (Executive Committee and Executive Voting Directors) and 50th (other Executive Directors) percentiles, of the corresponding figures for all companies in the then S&P/ASX 100 Index, with the conditions to be examined only upon vesting.

The MGESOP Rules provide that the total number of options which can be on issue at any one time is limited such that the number of shares resulting from exercise of all unexercised options does not exceed 20 per cent of the number of the Company's then issued ordinary shares plus the number of shares which the Company would have to issue if all rights to require the Company to issue shares, which the Company has then granted (including options) were then enforced or exercised to the greatest extent permitted.

Note 36

Employee equity participation continued

Option Plan continued

The Board has applied a second limitation on the number of options, being effectively the same calculation as in the MGESOP Rules except that any exercised options granted less than five years ago, where the Executive is still with the Company, will be treated as still being unexercised.

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

On 25 May 2000, the MBL Board approved amendments to the Macquarie Bank Employee Share Option Plan Rules referred to as the Deferred Exercise Share Option Plan (DESOP). Shares resulting from the exercise of options since then have been placed under the DESOP, unless option holders request otherwise. Unless the Company is aware of circumstances which, in the reasonable opinion of the Company, indicate that the relevant Executive may have acted fraudulently, dishonestly or in a manner which is in breach of his/her obligations to the Company or any associated entity, then such a request will be granted. These amendments were rolled forward into the current MGESOP approved by the MGL Board.

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

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

- an employee's resignation from the Company or a related company;
- upon request from the employee (after the expiration of the non-disposal period); and
- ten years from the date that the options were originally granted.

Options carry no dividend or voting rights but have standard adjustment clauses for bonus and rights issues and reconstructions.

Macquarie Group Employee Retained Equity Plan

In December 2009 MGL shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP) in conjunction with new remuneration arrangements. These new arrangements included a decrease in the portion of staff profit share paid in cash and an increase in the portion delivered as equity,

an increase in the proportion of deferred remuneration and cessation of new option grants under the Macquarie Group Employee Share Option Plan. Participation in the MEREP is currently provided to the following staff (Eligible Employees):

- Executive Directors with retained DPS ('Director Profit Share') from 2009, a proportion of which was allocated in the form of MEREP awards (Retained DPS Awards). See the Remuneration Report for more information on the allocation of DPS to Executive Directors;
- Executive Directors with pre-2009 retained DPS which they have elected to transition into the MEREP under the new remuneration arrangements (Transition Awards);
- staff other than Executive Directors with retained profit share, which from 2009 is to be delivered in the form of MEREP Awards under the new remuneration arrangements (Retained Profit Share Awards);
- staff who are promoted to Associate Director, Division Director or Executive Director, who receive a fixed allocation of MEREP awards (Promotion Awards);
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level. Option grants to these staff have now been replaced with a fixed number of MEREP awards depending on level (New Hire Awards); and
- in limited circumstances, Macquarie staff who may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of Macquarie 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).

For Retained Profit Share Awards representing 2009 retention, Transition Awards and Retained DPS Awards relating to 2009 retained DPS, the conversion price was publicly announced by Macquarie on 1 May 2009 to be the volume weighted average price from 4 May 2009 up to and including the date of the 2009 AGM which was held on 29 July 2009. That price was calculated to be \$36.36.

The number of Awards granted was calculated by adjusting the employee's relevant retained profit share amount, or retained DPS, for any applicable on-costs, dividing this amount by \$36.36, and rounding down to the nearest whole number. The grant of Awards to Eligible Employees working in Australia is subject to payroll tax, calculated based on the market value of Shares on the Acquisition Date.

For most New Hire and Promotion Awards, a standard number of Awards was offered, depending on the level at which the employee was hired at or promoted to. In limited cases, there are variations to these fixed amounts for specific individuals.

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for the financial year ended 31 March 2010

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Note 36

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

Award Types under the MEREP

Restricted Share Units (RSUs)

An 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 is a right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. Macquarie 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 Macquarie 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 Macquarie in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders generally of Macquarie 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 Macquarie shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs below).

Performance Share Units (PSUs)

PSUs are structured as DSUs or RSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. Where PSUs are structured as DSUs, holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs. For 2009 the PSUs granted to the Executive Committee, including the CEO, are structured as DSUs with performance hurdles. The rights under any future PSUs structured as RSUs will generally be the same as the rights under RSUs, except for the PSU performance hurdles which will not apply to RSUs.

Note 36

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

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

	Number of RSU Awards 2010
RSUs on issue at the beginning of the financial year	–
Granted during the financial year	7,986,684
Forfeited during the financial year	(79,519)
RSUs on issue at the end of the financial year	7,907,165

The weighted average fair value of the RSU Awards granted during the financial year was \$46.35.

During the financial year no RSU awards were exchanged for MGL shares.

The market value of shares which may be issued on the exercise of the outstanding RSUs as at 31 March 2010 was \$374 million.

	Number of DSU Awards 2010
DSUs on issue at the beginning of the financial year	–
Granted during the financial year	1,457,718
Forfeited during the financial year	(36,655)
DSUs on issue at the end of the financial year	1,421,063

The weighted average fair value of the DSU Awards granted during the financial year was \$46.35.

During the financial year no DSU awards were exchanged for MGL shares.

The market value of shares which may be issued on the exercise of the outstanding DSUs as at 31 March 2010 was \$67 million.

	Number of PSU Awards 2010
PSUs on issue at the beginning of the financial year	–
Granted during the financial year	201,900
PSUs on issue at the end of the financial year	201,900

The weighted average fair value of the PSU Awards granted during the financial year was \$46.35.

During the financial year no PSU awards were exchanged for MGL shares.

The market value of shares which may be issued on the exercise of the outstanding PSUs as at 31 March 2010 was \$10 million.

The awards are measured at their grant dates based on their fair value and for each PSU the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution. For the year ended 31 March 2010, compensation expense relating to the MEREP totalled \$114 million.

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continued

Note 36

Employee equity participation continued

Vesting of Retained DPS Awards

The Vesting Periods that apply to Retained DPS Awards representing 2009 retention are set out below for all Executive Directors:

First staff trading day after ¹	% of Awards released
1 July 2012	20
1 July 2013	20
1 July 2014	20
1 July 2015	20
1 July 2016	20

- ¹ 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.

Vesting of Transitioned Amounts

The Vesting Periods that apply to Transition Awards are set out below:

First staff trading day after ²	% of Awards released for Executive Committee	% of Awards released for Other Executive Directors
1 July 2010	14.28 (1/7 th)	20
1 July 2011	14.28 (1/7 th)	20
1 July 2012	14.28 (1/7 th)	20
1 July 2013	14.28 (1/7 th)	20
1 July 2014	14.28 (1/7 th)	20
1 July 2015	14.28 (1/7 th)	N/A
1 July 2016	14.28 (1/7 th)	N/A

- 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.

Vesting of 2009 Retained Profit Share and 2009 Promotion Awards

The Vesting Periods that apply to 2009 Retained Profit Share and 2009 Promotion Awards are set out below for all Eligible Employees:

First staff trading day after ³	Proportion of Awards vested
1 July 2011	one third
1 July 2012	one third
1 July 2013	one third

- ³ Vesting will occur on the first day of a staff trading window following 1 July of the specified year.

In limited cases, the Application Form for 2009 Retained Profit Share Awards and 2009 Promotion Awards may set out a different Vesting Period, in which case that period will be the Vesting Period for the Award.

Note 36

Employee equity participation continued

Vesting of New Hire Awards

For New Hire Awards to staff who commenced employment with the Macquarie Group prior to 31 December 2009, the Vesting Period for the Awards will commence on the 15th day of the month following their commencement with MGL (Vesting Start Date). The Awards will then vest in three equal tranches on the first day of the first staff trading period following the second, third and fourth anniversary of the Vesting Start Date.

New Hire Awards to Eligible Employees who commence employment with the Macquarie Group on or after 1 January 2010 will vest progressively over four years as follows:

- as to one third of the Awards, on the first day of the first staff trading window following the second Anniversary of the Acquisition Date;
- as to one third of the Awards, on the first day of the first staff trading window following the third Anniversary of the Acquisition Date; and
- as to one third of the Awards, on the first day of the first staff trading window following the fourth Anniversary of the Acquisition Date.

Vesting of Performance Share Units

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Currently, only members of the MGL and MBL executive Committee are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members in respect of the 2009 remuneration year, two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded, these hurdles are set out below. The BRC will periodically review the performance hurdles, including the reference group, and has the discretion to change the performance hurdles in line with regulatory and remuneration trends. Any change will be disclosed in Macquarie Group's Annual Report.

Performance Hurdle 1

50 per cent of the PSUs, based solely on the relative average annual return on ordinary equity (ROE) over the vesting period compared to a reference group of domestic and international financial institutions.

Vesting is on a sliding scale with 50 per cent vesting above the 50th percentile and 100 per cent vesting at the 75th percentile. For example, if ROE achievement is at the 60th percentile, 70 per cent of the Award would vest. The reference group comprises significant Australian financial companies within the ASX100 as well as Macquarie Group's major international investment banking competitors with whom Macquarie competes and frequently compares its performance. The reference group for this year's PSU allocation comprised of ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

Performance Hurdle 2

50 per cent of the PSUs, based solely on compound average annual growth (CAGR) in earnings per share (EPS) over the vesting period.

Awards will vest on a sliding scale with 50 per cent vesting at EPS CAGR of 9.0 per cent and 100 per cent vesting at EPS CAGR of 13.0 per cent. For example, if EPS CAGR were 11 per cent, 75 per cent of the Award would vest.

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

Employee Share Plan

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

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

The latest offer under the ESP was made during December 2009. A total of 1,635 staff participated in this offer. On 25 January 2010, the participants were each issued with 19 fully paid ordinary shares based on the offer amount of \$1,000 and then calculated average market share price of \$52.04, a total of 31,065 shares were issued. The shares were issued for no cash consideration.

Staff Share Acquisition Plan

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

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

The shares allocated under the MGSSAP were either newly issued shares or shares acquired on-market by the MGSSAP Plan Company, at the direction of MGL.

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for the financial year ended 31 March 2010

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Note 36

Employee equity participation continued

Staff Share Acquisition Plan continued

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

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

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

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

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

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

In April 2008 a further sub-plan of the MGSSAP was created, the Macquarie Group Executive Committee Acquisition Plan, whereby members of the MGL Executive Committee were required to contribute certain proportions of their annual profit share to acquire MGL shares, which must be held for at least three years. Further information on this is provided in the Remuneration Report. The first offers under this sub-plan were made in May 2008. MGL does not intend making any further allocations under this sub-plan, as Executive Committee members now receive the equity component of their retained profit share under the new Macquarie Group Employee Retained Equity Plan (see above).

Offers under the MGSSAP (including the Macquarie Group Executive Committee Acquisition Plan) were made during May 2009. A total of 106 staff participated in the MGSSAP. In July 2009, 27,391 MGL shares were issued based on the issue price of \$33.49. In December 2009, 1,194 MGL shares were issued.

Non-Executive Director Share Acquisition Plan

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

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

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

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

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

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

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

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

Offers under the NEDSAP were made during May 2009 and one NED participated in the NEDSAP. In June 2009, 3,639 MGL shares were acquired on-market.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
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Note 37

Contingent liabilities and commitments

The following details of contingent liabilities and commitments exclude derivatives.

Contingent liabilities exist in respect of:

Guarantees	321	253	769	1,560
Indemnities	6	6	-	-
Letters of credit	130	120	-	-
Performance related contingents	95	101	-	-
Total contingent liabilities¹	552	480	769	1,560

Commitments exist in respect of:

Undrawn credit facilities	3,860	2,566	-	-
Forward asset purchase	1,087	946	-	-
Total commitments²	4,947	3,512	-	-
Total contingent liabilities and commitments	5,499	3,992	769	1,560

¹ Contingent liabilities exist in respect of claims and potential claims against the consolidated entity. They are reported as the maximum potential liability without considering the value of recovery of assets. Where necessary, appropriate provisions have been made in the financial statements. The Directors do not consider that the outcome of any such claims known to exist at the date of this financial report, either individually or in aggregate, is likely to have a material effect on the results of its operations or its financial position.

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

Note 38

Capital and other expenditure commitments

Not later than one year	36	40	-	-
Later than one year and not later than five years	50	52	-	-
Later than five years	-	13	-	-
Total capital and other expenditure commitments	86	105	-	-

Note 39

Lease commitments

Non-cancellable operating leases expiring:

Not later than one year	228	265	-	-
Later than one year and not later than five years	777	1,039	-	-
Later than five years	668	815	-	-
Total operating lease commitments	1,673	2,119	-	-

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 2010

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Note 40

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

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

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

Cash flow hedges

The consolidated entity is exposed to volatility in future interest cash flows arising from floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps and cross currency swaps.

At 31 March 2010, the fair value of outstanding derivatives held by the consolidated entity and designated as cash flow hedges was \$86 million negative value (2009: \$80 million negative value).

In 2010, the consolidated entity recognised a \$2 million loss (2009: \$5 million loss) 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 issued debt 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 2010, the fair value of outstanding derivatives held by the consolidated entity and designated as fair value hedges was \$102 million positive value (2009: \$139 million negative value).

During the period fair value gains on the hedging instruments of \$241 million have been recognised (2009: \$245 million losses), offset by \$233 million (2009: \$229 million gain) of losses on the hedged item.

Net investment in foreign operations hedges

The consolidated entity has applied net investment hedging for foreign exchange risk arising from its non-core foreign operations.

At 31 March 2010, the fair value of outstanding derivatives held by the consolidated entity and designated as net investment in foreign operations hedges was \$106 million positive value (2009: \$34 million negative value). In 2010, the consolidated entity recognised \$nil (2009: \$nil) in the income statement due to hedge ineffectiveness on net investment hedges.

Note 40

Derivative financial instruments continued

Objectives of holding and issuing derivative financial instruments continued

The types of contracts which the consolidated entity trades and uses for hedging purposes are detailed below:

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

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

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

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

Notes to the financial statements

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continued

Note 40

Derivative financial instruments continued

The following table provides details of the consolidated entity's outstanding derivatives used for trading and in some cases for hedging purposes as at 31 March.

	Consolidated 2010				Consolidated 2009			
	Notional amount \$m	Asset revaluations \$m	Liability revaluations \$m	Net fair value \$m	Notional amount \$m	Asset revaluations \$m	Liability revaluations \$m	Net fair value \$m
Interest rate contracts								
Exchange traded	13,232	46	50	(4)	28,427	126	141	(15)
Forwards	2,060	52	69	(17)	19,678	8	8	–
Swaps	157,715	3,065	3,237	(172)	172,182	4,780	4,280	500
Options	1,939	5	4	1	321	6	–	6
Total interest rate contracts	174,946	3,168	3,360	(192)	220,608	4,920	4,429	491
Foreign exchange contracts								
Forwards	16,552	258	391	(133)	78,322	2,121	1,982	139
Swaps	59,284	744	885	(141)	16,607	541	957	(416)
Options	656	314	342	(28)	2,604	776	759	17
Total foreign exchange contracts	76,492	1,316	1,618	(302)	97,533	3,438	3,698	(260)
Equity contracts								
Exchange traded	18,189	186	187	(1)	17,500	360	145	215
Swaps	3,173	128	234	(106)	1,850	322	1,292	(970)
Options	36,350	994	856	138	8,648	704	1,245	(541)
Other	675	–	4	(4)	3,020	25	55	(30)
Total equity contracts	58,387	1,308	1,281	27	31,018	1,411	2,737	(1,326)
Commodity contracts								
Exchange traded	36,045	4,142	4,446	(304)	55,902	3,361	3,469	(108)
Forwards	60,804	5,174	4,851	323	44,396	4,234	3,384	850
Swaps	40,764	4,141	3,826	315	39,692	5,625	4,828	797
Options	86,168	2,312	2,324	(12)	70,912	4,439	4,826	(387)
Total commodity contracts	223,781	15,769	15,447	322	210,902	17,659	16,507	1,152
Total derivatives contracts outstanding	533,606	21,561	21,706	(145)	560,061	27,428	27,371	57

Note 41

Financial risk management

Risk Management Group

Risk is an integral part of the consolidated entity's businesses. The main risks faced by the consolidated entity are market risk, equity risk, credit risk, liquidity risk, operational risk, legal 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 Macquarie Group. The Head of RMG, as Macquarie's Chief Risk Officer, is a member of the Executive Committee of MGL and MBL and reports directly to the Managing Director and Chief Executive Officer with a secondary reporting line to the Board Risk Committee. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

Note 41.1

Credit risk

Credit risk is the risk of financial loss as a result of failure by a client or counterparty to meet its contractual obligations. Credit risk arises from both lending and trading activities. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract once the settlement becomes due. In that situation the credit exposure is a function of the movement of prices over the period of the contract.

The consolidated entity's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals. All approvals reflect two principles: a requirement for dual sign-off and a requirement that, above specified limits, all credit exposures must be approved outside the business line proposing to undertake them. Most credit decisions are therefore taken within RMG.

All customers' counterparty limits and exposures are allocated an MGL rating on a 1 – 13 scale which broadly correspond with Standard and Poor's (S&P) and Moody's Investor Services (Moody's) credit ratings. Each MGL rating is assigned a Probability of Default (PD) estimate. Credit limits and exposures are also allocated a Loss Given Default (LGD) ratio reflecting the estimated economic loss in the event of default occurring.

No material credit exposures are assumed without appropriate analysis. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure that the most current information available on counterparties is taken into account.

All credit exposures are monitored regularly against limits. Credit exposures which fluctuate through the duration of the transaction are monitored daily. These include exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

Where counterparties are under stress they are monitored on a more frequent basis and counterparties with a deteriorating credit risk profile are monitored formally on a monthly basis through Creditwatch and Irregulars reporting. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and to manage the facilities through the impairment and provisioning process.

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

The consolidated entity's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

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

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

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk

The tables below detail the concentration of credit exposure of the consolidated entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the consolidated entity's assets.

	Due from banks \$m	Cash collateral on securities borrowed and reverse repurchase agreements ¹ \$m	Trading portfolio assets ² \$m	Loan assets held at amortised cost \$m
Australia				
Governments	–	668	3,541	279
Financial institutions	1,977	349	247	3,008
Other	–	–	130	23,877
Total Australia	1,977	1,017	3,918	27,164
Asia Pacific				
Governments	–	2	245	3
Financial institutions	1,488	316	33	215
Other	–	5	–	426
Total Asia Pacific	1,488	323	278	644
Europe, Middle East and Africa				
Governments	–	46	–	–
Financial institutions	2,418	3,857	39	899
Other	–	229	55	2,839
Total Europe, Middle East and Africa	2,418	4,132	94	3,738
Americas				
Governments	–	436	166	50
Financial institutions	2,368	955	400	1,943
Other	–	286	1,911	10,728
Total Americas	2,368	1,677	2,477	12,721
Total	8,251	7,149	6,767	44,267
Total gross credit risk				

¹ Classified based on the exposure to the underlying security borrowed.

² Included in Australia – Governments, are holdings of \$4,496 million (2009: \$1,458 million) issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the consolidated entity:

The consolidated entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in 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). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Other financial assets at fair value through profit or loss \$m	Derivative financial instruments – positive values \$m	Other assets \$m	Debt investment securities available for sale ² \$m	Life investment contracts and other unitholder investment assets \$m	Credit commitments and contingent liabilities \$m	Total \$m
Consolidated 2010						
1,478	548	226	3,716	–	–	10,456
689	380	–	7,384	685	98	14,817
4,654	478	2,987	441	35	1,281	33,883
6,821	1,406	3,213	11,541	720	1,379	59,156
–	4	40	–	–	–	294
50	244	–	41	–	91	2,478
1	105	2,204	1	–	172	2,914
51	353	2,244	42	–	263	5,686
–	85	414	86	–	87	718
686	7,874	38	2,994	–	248	19,053
–	3,381	1,608	506	–	1,037	9,655
686	11,340	2,060	3,586	–	1,372	29,426
–	88	233	162	–	11	1,146
284	6,328	7	759	–	179	13,223
76	2,046	2,727	786	–	2,295	20,855
360	8,462	2,967	1,707	–	2,485	35,224
7,918	21,561	10,484	16,876	720	5,499	129,492
						129,492

Notes to the financial statements

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continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk continued

	Due from banks \$m	Cash collateral on securities borrowed and reverse repurchase agreements ¹ \$m	Trading portfolio assets \$m	Loan assets held at amortised cost \$m
Australia				
Governments	–	1,433	4,001	74
Financial institutions	2,694	587	666	3,046
Other	–	–	137	27,877
Total Australia	2,694	2,020	4,804	30,997
Asia Pacific				
Governments	–	–	–	4
Financial institutions	1,514	54	32	241
Other	–	–	31	317
Total Asia Pacific	1,514	54	63	562
Europe, Middle East and Africa				
Governments	–	2	462	1
Financial institutions	5,435	1,908	–	2,330
Other	–	219	–	1,212
Total Europe, Middle East and Africa	5,435	2,129	462	3,543
Americas				
Governments	–	282	21	58
Financial institutions	2,628	534	535	1,698
Other	–	77	12	7,893
Total Americas	2,628	893	568	9,649
Total	12,271	5,096	5,897	44,751
Total gross credit risk				

¹ Classified based on the exposure to the underlying security borrowed.

² Included in Australia – Governments, are holdings of \$1,458 million issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the consolidated entity:

The consolidated entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in 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). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Other financial assets at fair value through profit or loss \$m	Derivative financial instruments – positive values \$m	Other assets \$m	Debt investment securities available for sale ² \$m	Life investment contracts and other unit holder investment assets \$m	Credit commitments and contingent liabilities \$m	Total \$m
Consolidated 2009						
–	411	208	2,060	–	8	8,195
560	4,772	6	9,381	739	408	22,859
4,711	655	1,514	140	81	1,182	36,297
5,271	5,838	1,728	11,581	820	1,598	67,351
–	53	59	–	–	–	116
–	342	–	–	–	–	2,183
1	230	2,417	2	–	239	3,237
1	625	2,476	2	–	239	5,536
–	–	242	–	–	–	707
369	6,843	–	3,437	–	145	20,467
–	1,833	2,070	98	–	338	5,770
369	8,676	2,312	3,535	–	483	26,944
–	18	113	–	–	9	501
74	3,634	23	1,667	–	243	11,036
–	8,637	1,149	524	–	1,420	19,712
74	12,289	1,285	2,191	–	1,672	31,249
5,715	27,428	7,801	17,309	820	3,992	131,080
						131,080

Notes to the financial statements

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continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk continued

	Other assets \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
Company 2010				
Australia				
Governments	96	–	–	96
Other	8	11,635	342	11,985
Total Australia	104	11,635	342	12,081
Asia Pacific				
Other	–	2	277	279
Total Asia Pacific	–	2	277	279
Europe, Middle East and Africa				
Other	–	1	138	139
Total Europe, Middle East and Africa	–	1	138	139
Americas				
Other	–	5	12	17
Total Americas	–	5	12	17
Total	104	11,643	769	12,516
Total gross credit risk				12,516
Company 2009				
Australia				
Governments	85	–	–	85
Other	–	10,382	602	10,984
Total Australia	85	10,382	602	11,069
Asia Pacific				
Other	–	–	526	526
Total Asia Pacific	–	–	526	526
Europe, Middle East and Africa				
Other	–	–	216	216
Total Europe, Middle East and Africa	–	–	216	216
Americas				
Other	–	8	216	224
Total Americas	–	8	216	224
Total	85	10,390	1,560	12,035
Total gross credit risk				12,035

Note 41.1

Credit risk continued

Credit quality of financial assets

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

Credit Quality – Consolidated 2010

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
Due from banks	8,218	33	–	–	–	8,251
Cash collateral on securities borrowed and reverse repurchase agreements						7,149
Governments	924	228	–	–	–	1,152
Financial institutions	5,422	55	–	–	–	5,477
Other	438	72	10	–	–	520
Trading portfolio assets						6,767
Governments	3,894	58	–	–	–	3,952
Financial institutions	623	65	31	–	–	719
Other	215	1,825	56	–	–	2,096
Loan assets held at amortised cost						44,267
Governments	271	2	–	–	59	332
Financial institutions	5,532	505	–	–	28	6,065
Other	23,675	11,876	161	–	2,158	37,870
Other financial assets at fair value through profit or loss						7,918
Governments	1,478	–	–	–	–	1,478
Financial institutions	1,709	–	–	–	–	1,709
Other	2,606	2,081	–	–	44	4,731
Derivative financial instruments – positive values						21,561
Governments	697	28	–	–	–	725
Financial institutions	14,178	648	–	–	–	14,826
Other	4,430	1,526	27	–	27	6,010
Other assets						10,484
Governments	913	–	–	–	–	913
Financial institutions	–	–	–	–	45	45
Other	5,871	2,895	–	566	194	9,526
Debt investment securities available for sale						16,876
Governments	3,964	–	–	–	–	3,964
Financial institutions	11,122	56	–	–	–	11,178
Other	774	932	–	–	28	1,734
Life investment contracts and other unitholder assets						720
Financial institutions	685	–	–	–	–	685
Other	35	–	–	–	–	35
Total						123,993

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 2010

continued

Note 41.1

Credit risk continued

Credit quality of financial assets continued

Credit Quality – Consolidated 2009

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
Due from banks	12,252	19	–	–	–	12,271
Cash collateral on securities borrowed and reverse repurchase agreements						5,096
Governments	1,522	195	–	–	–	1,717
Financial institutions	2,998	85	–	–	–	3,083
Other	277	19	–	–	–	296
Trading portfolio assets						5,897
Governments	4,484	–	–	–	–	4,484
Financial institutions	1,195	38	–	–	–	1,233
Other	81	99	–	–	–	180
Loan assets held at amortised cost						44,751
Governments	62	–	–	–	75	137
Financial institutions	5,235	1,922	38	–	120	7,315
Other	24,098	9,815	845	–	2,541	37,299
Other financial assets at fair value through profit or loss						5,715
Governments	–	–	–	–	–	–
Financial institutions	1,003	–	–	–	–	1,003
Other	4,084	568	–	–	60	4,712
Derivative financial instruments – positive values						27,428
Governments	478	4	–	–	–	482
Financial institutions	14,889	702	–	–	–	15,591
Other	9,299	2,056	–	–	–	11,355
Other assets						7,801
Governments	622	–	–	–	–	622
Financial institutions	–	–	24	–	5	29
Other	4,126	2,757	–	106	161	7,150
Debt investment securities available for sale						17,309
Governments	2,060	–	–	–	–	2,060
Financial institutions	14,321	164	–	–	–	14,485
Other	455	258	–	–	51	764
Life investment contracts and other unitholder assets						820
Financial institutions	739	–	–	–	–	739
Other	81	–	–	–	–	81
Total						127,088

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

Note 41.1

Credit risk continued

Credit quality of financial assets continued

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

Credit Quality – Company 2010

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
Other assets						104
Governments	96	–	–	–	–	96
Other	–	8	–	–	–	8
Due from subsidiaries						11,643
Other	11,607	–	–	36	–	11,643
Total						11,747

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

Credit Quality – Company 2009

	Neither past due nor impaired				Past due or individually impaired \$m	Total \$m
	Investment Grade \$m	Below Investment Grade \$m	Default \$m	Unrated \$m		
Other assets						85
Governments	85	–	–	–	–	85
Due from subsidiaries						10,390
Other	10,374	–	–	16	–	10,390
Total						10,475

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

Financial assets whose terms have been renegotiated

The table below includes the carrying value, as at the reporting date, of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

	Consolidated 2010 \$m	Consolidated 2009 \$m	Company 2010 \$m	Company 2009 \$m
Loans assets held at amortised cost				
Other	84	29	–	–

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 41.1

Credit risk continued

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

Class of financial asset	Past due but not impaired				Impaired \$m	Total \$m	Fair value of collateral held \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m			
Consolidated 2010							
Loan assets held at amortised cost							
Governments	24	33	2	–	–	59	48
Financial institutions	–	3	–	–	25	28	3
Other	1,007	219	89	317	526	2,158	2,551
Other financial assets at fair value through profit or loss							
Other	–	4	4	–	36	44	–
Derivative financial instruments – positive value							
Other	–	–	–	–	27	27	–
Other assets							
Financial institutions	38	–	–	–	7	45	36
Other	102	18	9	39	26	194	19
Debt investment securities available for sale							
Other	–	–	–	–	28	28	27
Total	1,171	277	104	356	675	2,583	2,684

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.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, \$1,100 million (2009: \$1,293 million) relates to collateral held against past due balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

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

Repossessed collateral

In the event of customer default on a residential mortgage facility, any loan security is usually held as mortgagee in possession and therefore the consolidated entity does not usually hold any real estate or other assets acquired through the enforcement of security.

In the event of customer default on corporate facilities, the consolidated entity may take possession of real estate or other assets held as security. During the year, the consolidated entity took possession of fixed assets and property assets with a carrying value of \$466 million (2009: \$25 million). These assets are in the process of being sold.

Note 41.1

Credit risk continued

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

Class of financial asset	Past due but not impaired				Impaired \$m	Total \$m	Fair value of collateral held \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m			
Consolidated 2009							
Loan assets held at amortised cost							
Governments	22	14	15	24	–	75	18
Financial institutions	25	31	1	22	41	120	16
Other	789	225	221	431	875	2,541	2,871
Other financial assets at fair value through profit or loss							
Other	27	10	9	14	–	60	21
Other assets							
Financial institutions	–	–	–	–	5	5	–
Other	62	14	11	43	31	161	–
Debt investment securities available for sale							
Other	–	–	–	–	51	51	–
Total	925	294	257	534	1,003	3,013	2,926

Note 41.2

Liquidity risk

Liquidity management

The consolidated entity's liquidity risk management framework ensures that the consolidated entity 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 and MBL Board and the Risk Management Group (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, Head of RMG, Treasurer and Business Group Heads.

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

Liquidity policy

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

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

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

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

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Note 41.2

Liquidity risk continued

Scenario analysis

Scenario analysis is central to the consolidated entity's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure the consolidated entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modelling includes 12 month liquidity scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes and a range of conservative assumptions are used with regard to access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

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

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

Liquidity contingency plan

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

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

Funding transfer pricing

An internal funding transfer pricing system is in place which aims to align businesses with the overall funding strategy of the consolidated entity. Under this system the costs of long and short-term funding are charged out, and credits are made to Business Units that provide long-term stable funding.

Contractual undiscounted cash flows

The 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. However, the consolidated entity expects that many customers will not request repayment on the earliest date the consolidated entity could be required to pay and the table does not reflect the expected cash flows indicated by the consolidated entity's deposit retention history.

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

Note 41.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
						Consolidated 2010
Due to banks	329	223	2,782	5,920	1,381	10,635
Cash collateral on securities lent and repurchase agreements	798	6,648	45	–	–	7,491
Trading portfolio liabilities	–	5,432	–	–	–	5,432
Derivative financial instruments (trading)	–	21,140	–	–	–	21,140
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	4,399	3,782	4,397	281	12,859
Contractual amounts receivable	–	(4,396)	(3,815)	(4,547)	(564)	(13,322)
Deposits	14,739	5,357	2,334	90	–	22,520
Debt issued at amortised cost ¹	3	6,474	5,494	31,648	4,972	48,591
Other liabilities ²	–	10,399	–	–	–	10,399
Other financial liabilities at fair value through profit or loss	8	1,740	1,866	697	159	4,470
Life investment contracts and other unitholder liabilities	–	4,864	–	–	–	4,864
Macquarie Convertible Preference Securities	–	33	33	759	–	825
Subordinated debt	–	8	36	212	1,487	1,743
Total undiscounted cash flows	15,877	62,321	12,557	39,176	7,716	137,647
Contingent liabilities	–	552	–	–	–	552
Commitments	–	4,842	105	–	–	4,947
Total undiscounted contingent liabilities and commitments³	–	5,394	105	–	–	5,499

¹ Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes are dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

² Excludes items that are not financial instruments and non – contractual accruals and provisions.

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

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continued

Note 41.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
						Consolidated 2009
Due to banks	1,266	240	598	9,495	1,611	13,210
Cash collateral on securities lent and repurchase agreements	1,930	1,650	509	–	–	4,089
Trading portfolio liabilities	–	2,161	–	–	–	2,161
Derivative financial instruments (trading)	–	25,747	–	–	–	25,747
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	243	9,326	7,049	5,600	46	22,264
Contractual amounts receivable	(227)	(9,408)	(6,795)	(5,380)	(26)	(21,836)
Deposits	13,108	7,040	1,637	165	–	21,950
Debt issued at amortised cost ¹	1	6,944	11,377	31,051	4,895	54,268
Other liabilities ²	–	8,058	–	–	–	8,058
Other financial liabilities at fair value through profit or loss	115	1,992	1,170	2,199	1,898	7,374
Life investment contracts and other unitholder liabilities	–	4,312	–	–	–	4,312
Macquarie Convertible Preference Securities	–	33	33	833	–	899
Subordinated debt	–	15	276	1,797	6	2,094
Total undiscounted cash flows	16,436	58,110	15,854	45,760	8,430	144,590
Contingent liabilities	–	480	–	–	–	480
Commitments	–	3,439	73	–	–	3,512
Total undiscounted contingent liabilities and commitments³	–	3,919	73	–	–	3,992

¹ Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes are dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

² Excludes items that are not financial instruments and non-contractual accruals and provisions.

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

Note 41.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
						Company 2010
Due to banks	-	-	2,328	5,008	-	7,336
Deposits	-	54	-	-	-	54
Debt issued at amortised cost	-	12	187	2,268	2,167	4,634
Due to subsidiaries	1,049	73	40	1,343	-	2,505
Total undiscounted cash flows	1,049	139	2,555	8,619	2,167	14,529
Contingent liabilities	-	769	-	-	-	769
Total undiscounted contingent liabilities¹	-	769	-	-	-	769
						Company 2009
Due to banks	-	52	-	8,125	-	8,177
Deposits	-	104	-	-	-	104
Due to subsidiaries	119	34	3,870	-	-	4,023
Total undiscounted cash flows	119	190	3,870	8,125	-	12,304
Contingent liabilities	-	1,560	-	-	-	1,560
Total undiscounted contingent liabilities¹	-	1,560	-	-	-	1,560

¹ Cash flows on contingent liabilities are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a cash flow date outside the bucket.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 41.3

Market risk

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

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

and to the correlation of market prices and rates within and across markets.

It is recognised that trading activities which give rise to market exposures contain an element of risk taking. The consolidated entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

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

RMG sets three complementary limit structures:

- **Contingent Loss Limits:** a wide range of price and volatility scenarios, including comprehensive worst case, or stress scenarios. Worst case scenarios include market movements larger than have occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- **Position Limits:** volume, maturity and open position limits are set on a large number of market instruments and positions in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions; and
- **Value-at-Risk (VaR) Limits:** statistical measure based on a 10-day holding period and a 99 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a 1-day VaR against hypothetical and actual daily trading profit or loss.

Note 41.3

Market risk continued

Value-at-Risk (VaR) figures

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

	2010 Average \$m	2010 Maximum \$m	2010 Minimum \$m	2009 Average \$m	2009 Maximum \$m	2009 Minimum \$m
						Consolidated
Equities	6.66	20.92	2.80	5.79	16.41	3.27
Interest rates	4.34	6.65	3.09	5.25	10.04	2.52
Foreign exchange and bullion	3.59	10.50	0.57	5.00	14.97	1.49
Commodities	10.95	16.98	5.37	9.06	17.04	5.48
Aggregate	14.26	26.70	6.06	13.01	24.17	9.28

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three to ten years of historical data. VaR focuses on unexceptional price moves, 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 to the consolidated entity's trading business 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 as an unavoidable consequence of doing business. Residual risks have independent limits that are monitored by RMG.

Certain interest rate derivative transactions are undertaken to economically hedge interest rate risk associated with the MIPS. As the MIPS are classified as equity for accounting and the hedge accounting requirements cannot be met, the volatility arising from recognising these derivatives at fair value is reflected in the income statement. Interest rate sensitivity on these derivatives is not reflected in the VaR numbers above. Indicatively, a 50 basis point increase/decrease in interest rates would result in a decrease/increase in profit before tax of \$3 million (2009: \$20 million) respectively.

Other than the volatility on the derivatives described above, there are no material interest rate risks within the consolidated entity.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 41.3

Market risk continued

Foreign currency risk

The consolidated entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of 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 appropriately manage this risk, 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 business units is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below.

During the year the foreign currency hedging policy of the consolidated entity was reviewed with the effect of reducing 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, GBP, HKD and CAD.

	Movement in exchange rates	Sensitivity of equity after tax
	%	\$m
		Consolidated
Australian dollar	+10	(174.3)
Australian dollar	-10	213.0

Note 41.3

Market risk continued

Equity price risk

The table below indicates the equity markets to which the consolidated entity had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Geographic region	2010			2009		
	Movement in equity price %	Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m	Movement in equity price %	Sensitivity of profit before tax \$m	Sensitivity of equity after tax \$m
Consolidated						
Listed						
Australia	+10	2.6	59.5	+10	0.6	11.4
Asia Pacific	+10	–	4.5	+10	–	4.6
Europe, Middle East and Africa	+10	0.2	1.9	+10	–	0.9
Americas	+10	3.9	4.2	+10	2.1	2.3
Unlisted	+10	0.1	27.9	+10	0.1	36.3
Listed						
Australia	–10	(2.2)	(59.5)	–10	(0.4)	(11.4)
Asia Pacific	–10	–	(4.5)	–10	–	(4.6)
Europe, Middle East and Africa	–10	–	(1.9)	–10	–	(0.9)
Americas	–10	(3.9)	(4.2)	–10	(2.1)	(2.3)
Unlisted	–10	(0.1)	(27.9)	–10	(0.1)	(36.3)

Notes to the financial statements

for the financial year ended 31 March 2010

continued

	Consolidated 2010			Consolidated 2009		
	Average balance	Income/ (expense)	Average rate	Average balance	Income/ (expense)	Average rate
	\$m	\$m	%	\$m	\$m	%
Note 42						
Average interest bearing assets and liabilities and related interest						
Assets						
Interest bearing assets						
Due from banks	8,419	151	1.8	11,392	394	3.5
Cash collateral on securities borrowed and reverse repurchase agreements	6,694	112	1.7	14,956	449	3.0
Trading portfolio assets	7,196	357	5.0	3,947	271	6.9
Loan assets held at amortised cost	46,093	2,798	6.1	50,579	3,862	7.6
Other financial assets at fair value through profit or loss	5,023	374	7.4	4,710	397	8.4
Investment securities available for sale	19,367	789	4.1	16,707	1,030	6.2
Interest in associates and joint ventures accounted for using the equity method	358	10	2.8	402	17	4.2
Total interest bearing assets	93,150	4,591		102,693	6,420	
Total non-interest bearing assets	57,151			69,078		
Total assets	150,301			171,771		
Liabilities						
Interest bearing liabilities						
Due to banks	10,693	(408)	3.8	10,672	(520)	4.9
Cash collateral on securities lent and repurchase agreements	7,657	(352)	4.6	9,679	(333)	3.4
Trading portfolio liabilities	988	(46)	4.7	2,052	(126)	6.1
Deposits	20,484	(600)	2.9	19,109	(970)	5.1
Debt issued at amortised cost	45,716	(1,788)	3.9	51,633	(3,188)	6.2
Other financial liabilities at fair value through profit or loss	4,912	(181)	3.7	3,637	(209)	5.7
Other liabilities	305	(16)	5.2	110	(6)	5.5
Loan capital						
Macquarie Convertible Preference Securities	592	(67)	11.3	435	(32)	7.4
Subordinated debt	1,685	(53)	3.1	1,960	(98)	5.0
Total interest bearing liabilities	93,032	(3,511)		99,287	(5,482)	
Total non-interest bearing liabilities	46,316			62,549		
Total liabilities	139,348			161,836		
Net assets	10,953			9,935		
Equity						
Contributed equity						
Ordinary share capital	6,063			4,759		
Treasury shares	(36)			(4)		
Exchangeable shares	133			124		
Reserves	273			230		
Retained earnings	3,898			3,632		
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	10,331			8,741		
Minority interest	622			1,194		
Total equity	10,953			9,935		

Note 43

Fair values of financial assets and liabilities

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

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

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

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

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

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

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

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

- Trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- Investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- Fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans;

- For financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the basic interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilises observable market parameters, market practice is to quote parameters equivalent to an interbank credit rating (that is, all counterparties are assumed to have the same credit quality). Consequently, a CVA calculation is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value; and
- The consolidated entity's own credit risk is factored into the valuations of liabilities measured at fair value via debit valuation adjustments (DVA). This is because credit risk affects what the transaction price of the liability would have been in an arm's length exchange motivated by normal business considerations (e.g. it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the consolidated entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the consolidated entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

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

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 43

Fair values of financial assets and liabilities continued

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

- The fair values of variable rate financial instruments, including loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximated by their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value;
- The fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower;
- The fair value of debt issues and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the consolidated entity's own credit spread;
- Substantially all of the consolidated entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and
- In the separate financial statements of the Company, the fair value of balances due from/to subsidiaries is approximated by their carrying amount as the balances are generally receivable/payable on demand.

The tables below summarise the carrying value and fair value of all financial assets and liabilities held at amortised cost of the consolidated entity and Company at 31 March 2010:

	2010 Carrying amount \$m	2010 Fair value \$m	2009 Carrying amount \$m	2009 Fair value \$m
Consolidated				
Assets				
Due from banks	8,251	8,251	12,271	12,271
Loan assets held at amortised cost	44,267	44,486	44,751	44,984
Total financial assets	52,518	52,737	57,022	57,255
Liabilities				
Due to banks	9,927	9,720	11,858	11,004
Deposits	22,484	22,492	21,868	21,868
Debt issued at amortised cost	42,614	42,784	48,270	47,687
Macquarie Convertible Preference Securities	593	637	591	553
Subordinated debt at amortised cost	916	910	1,496	725
Total financial liabilities	76,534	76,543	84,083	81,837
Company				
Assets				
Due from subsidiaries	11,643	11,643	10,390	10,390
Total financial assets	11,643	11,643	10,390	10,390
Liabilities				
Due to banks	6,922	6,685	7,393	6,443
Deposits	54	54	104	104
Debt issued at amortised cost	3,154	3,352	-	-
Due to subsidiaries	2,357	2,425	3,919	3,760
Total financial liabilities	12,487	12,516	11,416	10,307

Note 43

Fair values of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value at 31 March 2010:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
				Consolidated
Assets				
Trading portfolio assets	9,220	2,494	424	12,138
Other financial assets at fair value through profit or loss	3,279	5,578	315	9,172
Derivative financial instruments – positive values	3,269	18,016	276	21,561
Investment securities available for sale	16,176	1,519	526	18,221
Life investment contracts and other unitholder investment assets	940	3,906	–	4,846
Total assets	32,884	31,513	1,541	65,938
Liabilities				
Trading portfolio liabilities	4,350	1,079	3	5,432
Derivative financial instruments – negative values	3,862	17,416	428	21,706
Other financial liabilities at fair value through profit or loss	85	4,270	58	4,413
Life investment contracts and other unitholder liabilities	944	3,920	–	4,864
Subordinated debt at fair value through profit or loss	–	499	–	499
Total liabilities	9,241	27,184	489	36,914

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 43

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table reconciles the balances in Level 3 of the fair value hierarchy for the consolidated entity for the financial year ended 31 March 2010:

	Trading portfolio assets \$m	Other financial assets at fair value through profit or loss \$m
Balance at the beginning of the financial year	755	126
Purchases	503	145
Sales	(752)	(14)
Issues	-	-
Settlements	-	-
Transfers into Level 3	-	42
Transfers out of Level 3	(83)	-
Fair value gains/(losses) recognised in the income statement ¹	1	16
Fair value gains/(losses) recognised in other comprehensive income ¹	-	-
Balance at the end of the financial year	424	315
Fair value gains/(losses) for the period included in the income statement for assets and liabilities held at the end of the financial year end. ¹	19	16

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

² The derivative financial instruments in the table above are represented on a net basis. On a gross basis Derivative financial instruments – positive values are \$276 million and Derivative financial instruments – negative values are \$428 million.

Investment securities available for sale \$m	Trading portfolio liabilities \$m	Other financial liabilities at fair value through profit or loss \$m	Derivative financial instruments (net replacement values) ² \$m	Total \$m
				Consolidated
968	-	-	(88)	1,761
211	(25)	(55)	(43)	736
(328)	27	-	15	(1,052)
2	-	-	(20)	(18)
(11)	-	-	31	20
-	-	-	(30)	12
(138)	-	-	49	(172)
(82)	(5)	(3)	(66)	(139)
(96)	-	-	-	(96)
526	(3)	(58)	(152)	1,052
(22)	(2)	(3)	(85)	(77)

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 43

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the consolidated entity did not have significant transfers between level 1 and 2.

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

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the consolidated entity recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Consolidated 2010 \$m
Balance at the beginning of the period	55
Deferral on new transactions	25
Amounts recognised in the income statement during the year	(42)
Balance at the end of the period	38

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 based on such assumptions.

	Favourable changes		Unfavourable changes	
	Profit & loss \$m	Equity \$m	Profit & loss \$m	Equity \$m
	Consolidated 2010			
Product type				
Equity and equity linked products	32	13	(32)	(2)
Asset backed products	30	-	(28)	-
Commodity products	24	-	(24)	-
Credit products	3	-	(3)	-
FX products	2	-	(2)	-
Interest rate products	1	-	(1)	-
Total	92	13	(90)	(2)

Note 44

Audit and other services provided by PricewaterhouseCoopers

During the year, the auditor of the Company and consolidated entity, PwC, and its related practices earned the following remuneration:

	Consolidated 2010 \$'000	Consolidated 2009 \$'000	Company 2010 \$'000	Company 2009 \$'000
PwC – Australian firm				
Audit and review of financial reports of the Company or any subsidiary of the Company	5,963	6,993	14	16
Other audit-related work	1,201	1,855	–	–
Other assurance services	1,478	862	564	552
Total audit and other assurance services	8,642	9,710	578	568
Advisory services	717	1,283	–	–
Taxation	535	620	–	–
Total remuneration paid to PwC – Australian firm	9,894	11,613	578	568
Related practices of PwC – Australian firm (including PwC – overseas firms)				
Audit and review of financial reports of the Company or any subsidiary of the Company	7,718	7,117	–	–
Other audit-related work	157	57	–	–
Other assurance services	430	1,183	–	–
Total audit and other assurance services	8,305	8,357	–	–
Advisory services	694	2,422	–	–
Taxation	3,570	2,070	–	–
Total remuneration paid to related practices of PwC – Australian firm	12,569	12,849	–	–
Total remuneration paid to PwC	22,463	24,462	578	568

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 2010

continued

Note 45

Acquisitions and disposals of subsidiaries and businesses

In accordance with AASB 3 *Business Combinations*, provisional amounts for the initial accounting of acquisitions made during the period have been reported in this Financial Report.

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

– Tristone Capital Global Inc.

On 31 August 2009, a subsidiary of MGL acquired a 100 per cent interest in Tristone Capital Global Inc., an entity engaged in the business of providing advisory and securities services to the energy sector.

– Fox-Pitt Kelton Group

On 30 November 2009 a subsidiary of MGL acquired a 100 per cent interest in Fox-Pitt Kelton Cochran Caronia Waller LLC, a financial institutions focussed boutique investment banking firm, with a broad coverage across all financial institutions and specialisation in insurance advisory services.

– Blackmont Capital

On 31 December 2009, a subsidiary of MGL acquired a 100 per cent interest in Blackmont Capital Inc, a full service wealth management and investment dealer business.

– Delaware Investments

On 5 January 2010, a subsidiary of MGL acquired a 100 per cent interest in Delaware Investments, a leading US-based diversified asset management firm.

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

Telbane 2 Pty Limited, BE Geothermal GmbH, Advanced Markets Holdings LLC, Relational Technology Services Inc and Macquarie Topest Management Limited.

Aggregate details of the above entities and businesses (including disposal groups) acquired or consolidated due to acquisition of control are as follows:

	2010 \$m	2009 \$m
Fair value of net assets acquired		
Cash, other financial assets and other assets	1,191	513
Goodwill and other intangible assets	738	45
Property, plant and equipment	16	10
Assets of disposal groups classified as held for sale	48	683
Payables, provisions, borrowings and other liabilities	(1,021)	(439)
Liabilities of disposal groups classified as held for sale	(43)	(274)
Minority interests	(2)	–
Minority interest in disposal groups classified as held for sale	–	(179)
Total fair value of net assets acquired	927	359
Restructure and operating costs – disposal groups classified as held for sale	–	(110)
Adjusted net assets	927	249
Purchase consideration		
Cash consideration and costs directly attributable to acquisition	748	85
Deferred consideration	125	74
Extinguishment of loan asset	56	–
Total purchase consideration	929	159
Net cash (outflow)/inflow		
Cash consideration and costs directly attributable to acquisition	(748)	(85)
Less: cash and cash equivalents acquired	439	130
Net cash (outflow)/inflow	(309)	45

Included in the current year results for the consolidated entity is profit of \$14 million and revenue of \$89 million from Delaware Investments since the date of acquisition. If this acquisition had taken place on 1 April 2009 the impact on the current year results for the consolidated entity would have been profit of \$33 million and revenue of \$462 million. The operating results of the other acquisitions did not have a material impact on the results of the consolidated entity.

Note 45

Acquisitions and disposals of subsidiaries and businesses continued

Other entities acquired or consolidated due to acquisition of control during the financial year continued

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, the employees acquired as part of the business and synergies Macquarie expects to realise from the acquisitions.

The 31 March 2009 comparatives relate to Macquarie Securities (Thailand) Limited, Chartreuse et Mont Blanc and Constellation Energy, being the significant entities acquired or consolidated due to acquisition of control.

Significant entities and businesses disposed of or deconsolidated due to loss of control:

– Macquarie Communications Infrastructure Management Limited

On 22 July 2009, a subsidiary of MGL disposed of its 100 per cent interest in Macquarie Communications Infrastructure Management Limited.

Other entities disposed of or deconsolidated during the financial year are as follows:

Shanghai Chengli Properties Co Ltd, Lachlan Wealth Management Limited, Equinox Investment Holdings Pty Ltd, Macquarie Leisure Management Limited, Microstar Logistics LLC, Microstar Keg Management LLC, Global Container Management LLC, Microstar Global Asset Management LLC, Macquarie Infrastructure Investment Management Limited, Macquarie Airports Management Limited, Vow Financial Holdings Pty Limited, Macquarie Real Estate Investments Pty Limited, Japan Automobile Road Co Ltd, Macquarie Media Management Limited, Macquarie CountryWide Management Limited, Macquarie Office Management Limited, Macquarie Direct Property Management Limited, Macquarie Asset Services Limited, Macquarie Real Estate Management Services Pty Limited and Macquarie Real Estate Europe Limited.

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

	2010 \$m	2009 \$m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash, other financial assets and other assets	315	3,535
Goodwill and other intangible assets	18	–
Property, plant and equipment	89	4
Non-current assets and assets of disposal groups classified as held for sale	15	80
Payables, provisions, borrowings and other liabilities	(112)	(31)
Liabilities of disposal groups classified as held for sale	–	(59)
Total carrying value of assets and liabilities disposed of or deconsolidated	325	3,529
Consideration received		
Consideration received in cash and cash equivalents	473	3,424
Consideration received in equity	91	–
Deferred consideration	14	–
Total consideration received	578	3,424
Net cash inflow		
Cash received	473	3,424
Less:		
Investment retained	–	(1)
Cash and cash equivalents disposed of or deconsolidated	(36)	(17)
Net cash inflow	437	3,406

The 31 March 2009 comparatives relate to Longview Oil and Gas, MQ Japan Market Neutral Fund (Cayman Islands), the Italian mortgages business, the margin lending business and Macquarie Infrastructure Opportunities Fund Ltd, being the significant entities and businesses disposed of or deconsolidated due to loss of control.

Notes to the financial statements

for the financial year ended 31 March 2010

continued

Note 46

Events occurring after balance sheet date

Following approval by unitholders on 22 April 2010, investments in the Macquarie Cash Management Trust (CMT) will be converted to an at call account with Macquarie Bank. The conversion is scheduled to take place in July 2010. At the current time, total funds under management in the Macquarie CMT are \$10 billion. The funds transferred to the consolidated entity will form part of the consolidated entity's overall funding pool.

At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the financial years subsequent to 31 March 2010 not otherwise disclosed in this report.

Macquarie Group Limited

Directors' declaration

In the Directors' opinion

- a) the financial statements and notes set out on pages 137 to 244 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company and consolidated entity's financial position as at 31 March 2010 and of their performance, as represented by the results of their operations and its cash flows, for the financial year ended on that date; and
- b) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable; and
- c) the audited remuneration disclosures set out on pages 67 to 125 of the Directors' Report comply with Australian Accounting Standards and the Corporations Regulations 2001.

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*.

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



David S. Clarke, AO
Non-Executive Director and
Chairman



Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
29 April 2010

Independent audit report

To the members of Macquarie Group Limited continued



Report on the financial report

We have audited the accompanying financial report of Macquarie Group Limited (the Company), which comprises the balance sheet as at 31 March 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Group Limited and the Macquarie Group (the Consolidated Entity). The Consolidated Entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- a) the financial report of Macquarie Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 March 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 67 to 125 of the directors' report for the year ended 31 March 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Macquarie Group Limited for the year ended 31 March 2010, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



DH Armstrong

Partner

Sydney

29 April 2010

Glossary

AASB	Australian Accounting Standards Board	Directors	the Directors of Macquarie Group Limited (unless the context indicates otherwise)
the Act	Corporations Act 2001 (Cth)	DPS	Directors' Profit Share
ADI	authorised deposit-taking institution	DRP	Dividend Reinvestment Plan
AGM	Annual General Meeting	DSU	Deferred Share Unit issued under the MEREP
AIFRS	Australian International Financial Reporting Standards	DVA	debit valuation adjustments
APRA	Australian Prudential Regulatory Authority	ECAM	Economic Capital Adequacy Model
APS	Annual Profit Share	EPS	earnings per share
ASIC	Australian Securities & Investments Commission	ERL	Equity Risk Limit
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited	ESP	Macquarie Group Employee Share Plan
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations	Equity Plan	Macquarie Group Employee Retained Equity Plan
BACC	Board Audit and Compliance Committee	FIRB	Foundation Internal Ratings Based Approach
BBSW	Australian Financial Association's bank-bill rate, published daily on AAP Reuters page. The Australian equivalent of LIBOR, SIBOR etc.	FSF	Financial Stability Forum
BCGC	Board Corporate Governance Committee	FX, Forex	Foreign Exchange
BORM	Business Operational Risk Manager	IASB	International Accounting Standards Board
BRC	Board Remuneration Committee	IFRS	International Financial Reporting Standards
CFO	Chief Financial Officer	IPO	Initial Public Offering
the Company	Macquarie Group Limited	Macquarie, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
consolidated entity	Macquarie Group Limited and its subsidiaries	Macquarie Bank	Macquarie Bank Limited ABN 46 008 583 542
CRO	Chief Risk Officer	Macquarie Board/ the Board	the Board of Directors of Macquarie Group Limited
CVA	credit valuation adjustments	Macquarie CPS	Macquarie Convertible Preference Securities
DESOP	Deferred Exercise Share Option Plan	Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
		MBL	Macquarie Bank Limited
		MCR	minimum capital ratio
		MEL	Macro-Economic-Linkages
		MEREP	Macquarie Group Employee Retained Equity Plan
		MGESOP	Macquarie Group Employee Share Option Plan

Glossary

continued

MGL	Macquarie Group Limited ABN 94 122 169 279
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
NCD	negotiable certificates of deposit
NEDSAP	Non-Executive Director Share Acquisition Plan
NOHC	non-operating holding company
NPAT	net profit after tax
ORMF	Operational Risk Management Framework
PSU	Performance Share Unit issued under the MEREP
RMG	Risk Management Group
ROE	return on equity
RPS	retained profit share
RSU	Restricted Share Unit issued under the MEREP
RWA	risk-weighted assets
SPE	special purpose entity
TSR	total shareholder returns
VaR	Volume at Risk

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