MACQUARIE

2015 Annual Report

Macquarie Group

MACQUARIE GROUP LIMITED ACN 122 169 279

The Holey Dollar

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

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

2015 Annual General Meeting

Macquarie Group's 2015 Annual General Meeting will be held at 10:30am on Thursday, 23 July 2015 at the Sheraton on the Park (Grand Ballroom), 161 Elizabeth Street, Sydney NSW 2000.

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

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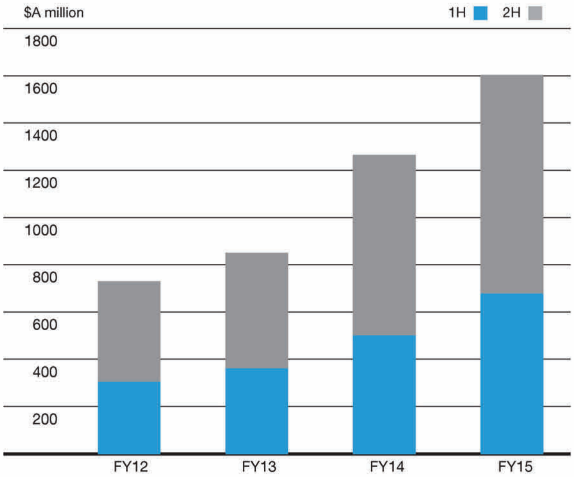
Financial Highlights

FY15 Net Profit

$A1.6 billion

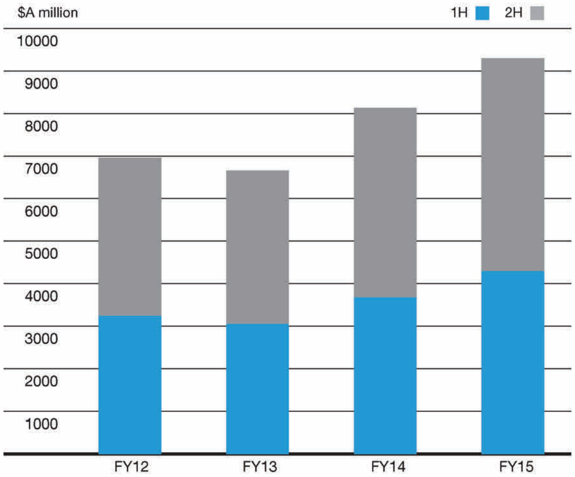
Up 27% on FY14



FY15 Operating Income

$A9.3 billion

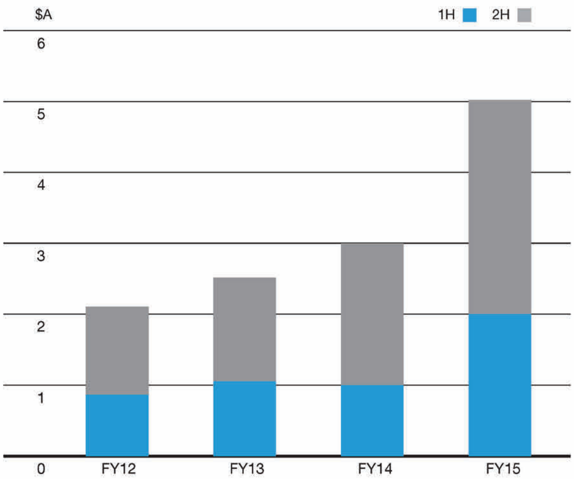
Up 14% on FY14



FY15 Earnings Per Share

$A5.02

Up 31% on FY14

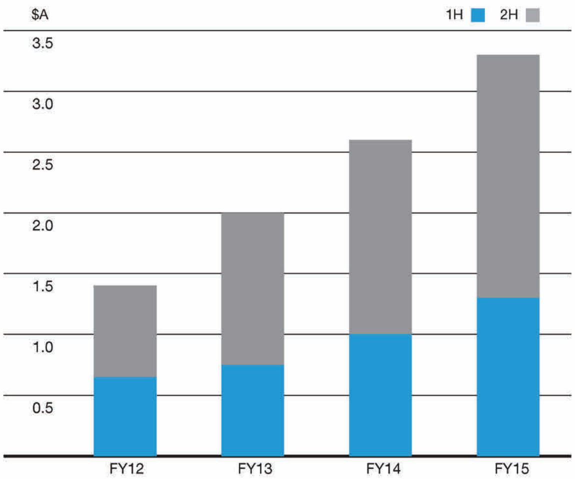


FY15 Ordinary Dividends Per Share

$A3.30

(40% franked)

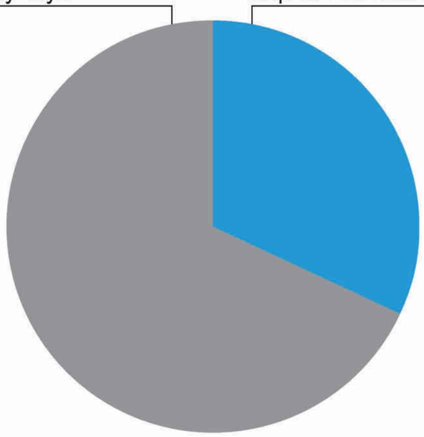
Up 27% on FY14[1]



(1) In 2H14 eligible shareholders also benefited from the SYD distribution in January 2014 which comprised a special dividend of $A1.16 (40% franked) and a return of capital of $A2.57 per share.

FY15 Net Profit Contribution(2)

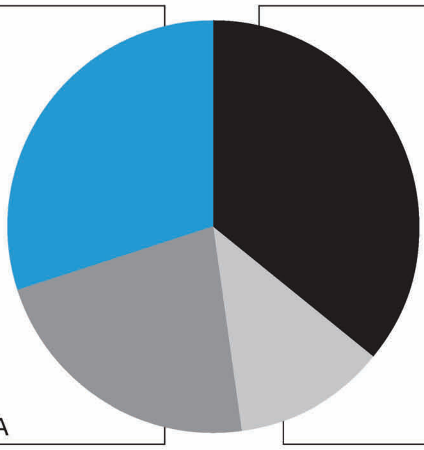
By Business Type



(2) Management accounting profit before unallocated corporate costs, profit share and income tax. Annuity-style businesses include Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services; Capital markets facing businesses include Macquarie Securities Group, Macquarie Capital and Commodities and Financial Markets.

FY15 International Income(3)

By Region



(3) Net operating income excluding earnings on capital and other corporate items.

FY15 Return on equity

14%

Up from 11.1% in FY14

Assets under management as at 31 March 2015

$A486 billion

Up 14% from 31 March 2014

FY15 Operating expenses

$A6.8 billion

Up 12% on FY14

FY15 Effective tax rate

35.9%

Down from 39.5% in FY14

Chairman's and Managing Director's Letter

A year of continued strong performance

We are pleased to announce Macquarie Group achieved a net profit of $A1.6 billion for the year ended 31 March 2015, up 27 percent on the prior year.

The Group reported record operating income of $A9.3 billion, an increase of 14 percent on the prior year.

Today's result reflects the return on many years of investment across the business, enabling the Group to further capitalise on improved trading conditions.

Five of Macquarie's six operating groups achieved a higher net profit contribution(1) during the year, with record net profit contributions from Macquarie Asset Management (formerly Macquarie Funds Group), Corporate and Asset Finance, Banking and Financial Services and Commodities and Financial Markets (formerly Fixed Income, Currencies and Commodities).

Our annuity-style businesses (Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services) had another strong year, with a combined net profit contribution of $A2.8 billion, an increase of 33 percent during the year. These businesses have continued to grow in the challenging market conditions of recent years, highlighting the diversity of Macquarie's business offering and its ability to adapt to changing conditions.

Among the annuity-style businesses:

- Macquarie Asset Management delivered strong annuity base and performance fee income
- Corporate and Asset Finance experienced increased lending and leasing activity and gains on asset and business sales
- Banking and Financial Services experienced continued volume growth across its mortgage business and wrap platform, as well as business lending and deposits.

The net profit contribution from our capital markets facing businesses (Macquarie Securities Group, Macquarie Capital and Commodities and Financial Markets) was $A1.3 billion, an increase of 19 percent on the prior year. These businesses continued to build on their strong franchise positions and benefited from improving market conditions.

Among the capital markets facing businesses:

- Macquarie Securities Group continued to experience strong equity capital markets (ECM) activity in Australia, while client activity across Asia remained subdued
- Macquarie Capital experienced increased activity in mergers and acquisitions and ECM, particularly in Australia and the US
- Commodities and Financial Markets improved its returns across its commodities related activities, as well as its fixed income and foreign exchange platforms, while the credit environment remained mixed.

Total Group operating expenses of $A6.8 billion for the year ended 31 March 2015 were up 12 percent, while the effective tax rate of 35.9 percent was down from 39.5 percent in the prior year.

(1) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

While our Australian franchise maintained its strong position, the offshore businesses continued to grow, with international income accounting for 70 percent of the Group's total income(2) for the year ended 31 March 2015. This reflects the growth of our international operations, particularly in the Americas which was the largest contributing region with 36 percent of total income, as well as the favourable impact of foreign exchange movements.

Dividends and Capital

The Board has resolved to pay a final ordinary dividend of $A2.00 per share (40 per cent franked), up from $A1.30 per share (40 percent franked) in the first half. This results in a total ordinary dividend payment for the year ended 31 March 2015 of $A3.30 per share, up from $A2.60 in the prior year(3).

Macquarie has a long-standing policy of holding a level of capital which supports its business and has consistently grown its capital base ahead of business requirements. The Group's APRA Basel III capital at 31 March 2015 was $A16.1 billion, a $A2.7 billion surplus to Macquarie's minimum regulatory capital requirements based on 1 January 2016(4) requirements.

Environmental, Social and Governance

The Board and Management view our commitment to Environmental, Social and Governance (ESG) performance as part of our broader responsibility to clients, shareholders and the communities in which we operate.

In the year ended 31 March 2015, we continued to embed ESG risk management across the organisation and pursue business opportunities in renewable energy, energy efficiency and ESG research. Further details of Macquarie's ESG approach are provided in the ESG Report.

In the Community

The Macquarie Group Foundation continued its long-standing support to the not-for-profit sector during the year and celebrates its 30th anniversary in 2015. Since 1985, the Foundation and our staff have contributed more than $A240 million to thousands of community organisations around the world. This year the Foundation and our staff contributed $A24 million in donations to more than 1,300 community organisations around the world and provided approximately 33,500 hours of voluntary community service.

(2) International income is net operating income excluding earnings on capital and other corporate items.

(3) In addition, in the prior year eligible shareholders benefited from the SYD distribution in January 2014 which comprised a special dividend of $A1.16 (40 per cent franked) and a return of capital of $A2.57 per share.

(4) Calculated at 8.5 percent Risk Weighted Assets (RWA) including capital conservation buffer (CCB), per the 1 January 2016 minimum requirements in APRA Prudential Standard 110. The APRA Basel III Group capital surplus is $A4.0 billion calculated at existing requirements of 7.0 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group.

Board and Management Changes

As previously advised, Helen Nugent and Peter Kirby retired as Non-Executive Directors from the Boards of Macquarie Group and Macquarie Bank on 24 July 2014.

We thank Helen and Peter for their significant contributions and wish them the very best for the future.

Gordon Cairns was appointed to the Macquarie Group and Macquarie Bank Boards as a Non-Executive Director on 1 November 2014. Mr Cairns has held a wide range of management and executive roles throughout his career including Chief Executive Officer of Lion Nathan Limited. He is currently the chairman of Origin Energy Limited, Quick Service Restaurants and the Origin Foundation. He has also served as a director of Westpac Banking Corporation, Seven Network Australia Limited and Lion Nathan Limited, as well as the chairman of David Jones Limited and Rebel Group Pty Limited.

Outlook

While the impact of future market conditions makes forecasting difficult, it is currently expected that the combined net profit contribution from operating groups for the financial year ending 31 March 2016 will be broadly in line with the financial year ended 31 March 2015.

The tax rate for the financial year ending 31 March 2016 is currently expected to be broadly in line with the second half of the financial year ended 31 March 2015, and down on the tax rate for the financial year ended 31 March 2015.

Accordingly, the Group's result for the financial year ending 31 March 2016 is currently expected to be slightly up on the financial year ended 31 March 2015.

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

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

On behalf of the Board and Management, we would like to thank staff for their efforts during the year. Finally, we thank our shareholders for their continued support.

Kevin McCann AM

Chairman

Nicholas Moore

Managing Director and Chief Executive Officer

Sydney
8 May 2015

Operating and Financial Review
for the financial year ended 31 March 2015

About Macquarie

Macquarie Group Limited (Macquarie, MGL, Macquarie Group, the Group or the Company) is a global financial services provider with offices in 28 countries. It is listed in Australia and is regulated by the Australian Prudential Regulation Authority (APRA), the Australian banking regulator, as the owner of Macquarie Bank Limited (Macquarie Bank, MBL), an authorised deposit-taking institution (ADI). Macquarie's activities are also subject to supervision by various other regulatory agencies around the world.

Founded in 1969, Macquarie now employs over 14,000 people globally, has total assets of $A188.0 billion and total equity of $A14.4 billion as at 31 March 2015.

Macquarie's breadth of expertise covers advisory and capital markets, trading and hedging, funds management, asset finance, financing, research and retail financial services. The diversity of its operations, combined with a strong capital position and robust risk management framework, has contributed to Macquarie's 46-year record of unbroken profitability.

Macquarie acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to its clients.

It has established leading market positions as a global specialist in a wide range of sectors, including resources and commodities, energy, financial institutions, infrastructure and real estate, and has a deep knowledge of Asia-Pacific financial markets.

Alignment of interests is a longstanding feature of Macquarie's client-focused business, demonstrated by its willingness to both invest alongside clients and closely align the interests of its shareholders and people.

Organisational structure

For internal reporting and risk management purposes, Macquarie is divided into six operating groups, which are supported by four central service groups. The operating groups are split between annuity-style businesses and capital markets facing businesses.

The service groups provide a range of functions supporting Macquarie's operating groups, ensuring they have the appropriate workplace support and systems to operate effectively and the necessary resources to meet their regulatory, compliance, financial reporting, legal and risk management requirements.

Further details on the operations and performance of each operating group can be found in the review of operating groups on pages 13 to 18.

Macquarie Group Limited (MGL)

Global financial services provider with offices in 28 countries and expertise across advisory and capital markets, trading and hedging, funds management, asset finance, financing, research and retail financial services.

Operating Groups

Annuity-style businesses	Capital markets facing businesses
Macquarie Asset Management (MAM) Full-service asset manager offering infrastructure and real asset management, securities investment management and tailored investment solutions over funds and listed equities.	**Macquarie Securities Group (MSG)** Global institutional securities house with strong Asia-Pacific foundations covering sales, research, equity capital markets (ECM), execution and derivatives activities.
Corporate and Asset Finance (CAF) Provider of specialist finance and asset management solutions, with global capability in corporate and real estate credit lending and asset financing.	**Macquarie Capital** Global corporate finance capability including mergers and acquisitions (M&A), equity and debt capital markets and principal investments, across six key industry groups.
Banking and Financial Services (BFS) Retail banking and financial services provider offering a diverse range of personal banking, wealth management and business banking products and services.	**Commodities and Financial Markets (CFM)** Provider of risk and capital solutions across physical and financial markets.

Central Service Groups

Risk Management Group (RMG)	Legal and Governance (LGL)	Financial Management Group (FMG)	Corporate Operations Group (COG)
Independent and centralised unit responsible for risk assessment and management across the business groups.	Provides a full range of strategic legal advice and support and corporate governance services.	Management of funding and capital through financial, tax and treasury services across the operating groups.	Driving operational excellence through talent, workplace, technology and market operations support.

Macquarie's purpose

Macquarie's purpose is to realise opportunity for the benefit of its clients, shareholders and people. It is in business to be profitable and to achieve an appropriate and resilient long term return on capital. Ultimately though, it is the way it does business that defines Macquarie.

Macquarie's approach is based on three long-held principles of Opportunity, Accountability and Integrity. These principles form the basis of Macquarie's expectations of its people and adherence to them is required under the *Code of conduct* (the Code) available on Macquarie's website at macquarie.com/what-we-stand-for

This balance between opportunity and accountability, while operating with integrity within a strong risk management framework, is a unique feature of Macquarie's success and a key factor in its 46-year record of unbroken profitability.

Business strategy

Consistent with the principles of Opportunity, Accountability and Integrity, Macquarie employs a business strategy focused on the medium term with the following key aspects:

- **conducting a mix of annuity-style and capital markets facing businesses** that deliver solid returns in a range of market conditions. In recent years Macquarie has strongly developed its annuity-style businesses, providing steady returns to the business and Macquarie shareholders and certainty to clients
- **operating a diversified set of businesses** across different locations and service offerings: banking, financial, advisory, investment and funds management services. Macquarie offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to the Group, as highlighted in the challenging global markets of recent years
- **utilising proven deep expertise** has allowed Macquarie to establish leading market positions as a global specialist in sectors including resources and commodities, energy, financial institutions, infrastructure and real estate, with a deep knowledge of Asia-Pacific financial markets
- **expanding progressively by pursuing adjacencies** through new organic opportunities and selective acquisitions in products and geographies that are adjacent to its established areas of expertise, by building expertise in these disciplines and expanding into associated activities. This results in sustainable evolutionary growth
- **pursuing growth opportunities** through recognising the value of ideas and innovation. Macquarie starts with real knowledge and skill and encourages innovation, ingenuity and entrepreneurial spirit coupled with accountability. Macquarie seeks to indentify opportunity and realise it for clients, community, shareholders and its people. Ideas for new businesses are typically generated in the operating businesses. Additionally, there are no specific businesses, markets, or regions in which Macquarie's strategy demands it operates. This means it retains operational flexibility and can adapt the portfolio mix to changing market conditions within the boundaries of the Board-approved Risk Appetite Statement (RAS)
- **utilising a conservative approach to risk management** through Macquarie's strong risk management framework, embedded across all operating groups. This equips the business for unanticipated disruptions and ensures that both the relevant business and Macquarie can survive a worst-case outcome from any new or existing activity
- **maintaining a strong and conservative balance sheet** consistent with its longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie remains well funded, with diversified funding sources. It continues to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.

Risk management

The acceptance of risk is an integral part of Macquarie's businesses. Strong independent prudential management has been a key to Macquarie's success and stability over many years. Where risk is assumed, it is within a calculated and controlled framework that assigns clear risk roles and responsibilities. Furthermore, Macquarie's strong culture of risk management is embedded across all operating groups and divisions.

The key macroeconomic risks to Macquarie's short and medium-term financial outlook mentioned on page 12 are as follows:

- **market conditions:** The general condition of markets, driven mainly by macroeconomic factors, will influence the volume of transactions that businesses experience. For example, an increase in market volatility may increase the income CFM derives from hedging transactions performed on behalf of clients. Market conditions can also influence the value of various equity, credit and market risk exposures held by Macquarie on its balance sheet. These risks are discussed further below
- **the value of the Australian dollar:** A significant proportion of Macquarie's net income is denominated in foreign currency. Therefore, net income will be lower in Australian dollar terms if it appreciates against these currencies.

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In addition there are specific risks which relate to the nature of Macquarie's operations. These include:

- **Credit risk**: This is the risk of a counterparty failing to complete its contractual obligations when they fall due. Examples of exposures that generate this risk include Macquarie advancing a loan to a retail or corporate client or when a capital markets facing business like CFM enters into a derivative contract. The consequent loss is either the amount of the loan not paid back or the loss incurred in replicating a trading contract with a new counterparty
- **Market risk**: This is 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 risks in the foreign exchange and bullion, interest rates and debt securities, equities and commodities and energy markets. This risk resides primarily in the capital markets facing businesses
- **Equity risk**: This is the risk of loss arising from non-trading equity-type exposures. Examples of such exposures include holdings in MAM-managed funds and principal exposures taken by Macquarie Capital
- **Operational risk**: This is the risk of loss resulting from failed or inadequate internal processes, people and systems or from external events
- **Liquidity risk**: This is the risk that Macquarie is unable to meet its financial obligations as they fall due which could arise due to mismatches in cash flows. Liquidity management is performed centrally by Group Treasury
- **Regulatory and compliance risk**: This is the risk of loss arising from a failure to comply with legal and regulatory requirements or government policies and the risk that regulatory change has an impact on Macquarie's business activities
- **Legal risk**: This is the risk of loss arising from a breach of contract, law or regulation, the risk of litigation or regulatory enforcement or the risk that a contract is not capable of being enforced as expected
- **Insurance risk**: This captures the risks associated with the provision of life insurance policies. It includes lapse risk, claims risk, asset/liability mismatch risk and expense risk
- **Tax risk:** This is the risk of loss arising from the misinterpretation of tax regimes and the manner in which they may be applied and enforced
- **Reputation risk:** This is the risk of loss arising from damage to Macquarie's brand or reputation.

The risks above are monitored, mitigated and managed under Macquarie's risk management framework. The framework is discussed in more detail in the Risk Management Report. The core risk management principles underlying the framework have remained stable and continue to be highly effective. These are:

- **ownership of risk at the business level:** Operating Group Heads are responsible for identifying risks within their businesses and ensuring that they are managed appropriately. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of Macquarie. Business ownership of risk is an essential element in understanding and controlling risk
- **understanding worst case outcomes:** Macquarie's risk management approach is based on examining the consequences of worst case outcomes and determining whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, Macquarie's market risk framework is based primarily on the application of stress tests, rather than statistical models. The effectiveness of this approach was demonstrated over the recent past. Shocks observed in the markets generally remained within Macquarie's stress scenarios, resulting in very few of our worst case loss scenarios being exceeded. While 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 sign-off by risk management:** Macquarie places significant importance on having a strong independent RMG that 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.

Review of Group performance and financial position

Group performance

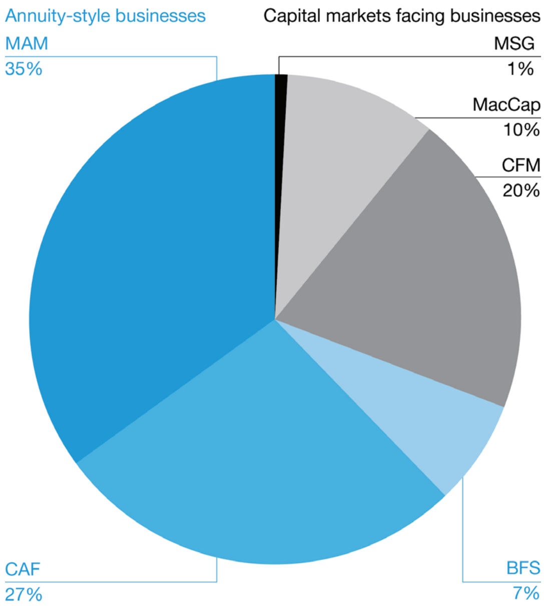
Overview

Profit attributable to ordinary equity holders of $A1,604 million for the year ended 31 March 2015 increased 27 percent from $A1,265 million in the prior year.

	31 Mar 2015 $A million	31 Mar 2014 $A million	Movement %
Net operating income	9,293	8,132	14
Operating expenses	(6,771)	(6,026)	12
Income tax expense	(899)	(827)	9
Profit attributable to non-controlling interests	(19)	(14)	36
Profit attributable to ordinary equity holders	1,604	1,265	27

FY2015 Net Profit Contribution

By Operating Group



Macquarie's annuity-style businesses – MAM, CAF and BFS – continued to perform well, generating a combined net profit contribution for the year ended 31 March 2015 of $A2,847 million, an increase of 33 percent on the prior year. MAM benefited from increased base and performance fee income, while CAF's higher net profit contribution was largely driven by increased loan and lease volumes, together with gains on the disposals of the US equipment leasing business and operating lease assets. BFS reported an improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits and the Wrap platform.

Macquarie's capital markets facing businesses – MSG, Macquarie Capital and CFM – delivered a combined net profit contribution for the year ended 31 March 2015 of $A1,329 million, an increase of 19 percent on the prior year. MSG's net profit contribution was down on the prior year as increased income from improved trading opportunities was offset by increased operating expenses driven by additional regulatory compliance requirements and restructuring costs associated with exiting Structured Products during the year. Macquarie Capital benefited from increased fee income across all product classes, particularly mergers and acquisitions and debt capital markets, and increased gains on sales of principal investments resulting from improved market conditions. CFM's net profit contribution was mainly driven by the continued strong performance of its commodities businesses, increased income across interest rates and foreign exchange platforms and increased fee income and debt capital markets activity in the US.

Further information on the group's performance is detailed below and the review of operating businesses is contained on pages 13 to 18.

Net operating income

Net operating income of $A9,293 million for the year ended 31 March 2015 increased 14 percent on the prior year. Key drivers of the changes from the prior year were:

- a 17 percent increase in combined net interest and trading income to $A3,819 million for the year ended 31 March 2015 from $A3,275 million in the prior year. Most operating groups contributed to the increase, with key drivers of the result being:
  - continued strong performance of commodities businesses in CFM
  - increased volatility in foreign exchange and interest rate markets, particularly in the second half of the year, resulting in increased client volumes and activity in CFM compared with the prior year, and
  - loan portfolio growth in CAF and BFS
- a 24 percent increase in fee and commission income to $A4,770 million for the year ended 31 March 2015 from $A3,853 million in the prior year primarily driven by:
  - increased base fees of $A1,388 million for the year ended 31 March 2015, up 8 percent from $A1,289 million in the prior year, largely due to positive net flows into higher fee earning products, additional investments and favourable currency and market movements
  - increased performance fees of $A667 million for the year ended 31 March 2015, up significantly from $A219 million in the prior year, including significant performance fees recognised from Macquarie Infrastructure Company LLC (MIC), Macquarie European Infrastructure Fund 1 (MEIF1), Hedge Funds and Macquarie Atlas Roads (MQA)
  - increased mergers and acquisitions, advisory and underwriting fees of $A973 million for the year ended 31 March 2015, up 20 percent from $A809 million in the prior year, mainly due to an increase in mergers and acquisitions and debt capital markets activity particularly in the US, and

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  - increased other fee and commission income of $A875 million for the year ended 31 March 2015, up 38 percent from $A633 million in the prior year mainly due to a fee from Freeport LNG Terminal by CFM and higher income in BFS resulting from the acquisition of the Woolworths credit card portfolio in May 2014 and increased platform commissions from higher assets under administration on the Wrap platform
- an 18 percent decrease in other operating income and charges to $A699 million for the year ended 31 March 2015 from $A855 million in the prior year. The current year included:
  - a decrease of 35 percent in net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) to $A324 million for the year ended 31 March 2015 from $A502 million in the prior year, which included a $A228 million gain on the Sydney Airport stapled securities distribution in January 2014 and income from the disposal of an investment in OzForex on its IPO in October 2013
  - gains on disposal of operating lease assets of $A231 million for the year ended 31 March 2015, up from $A2 million in the prior year mainly due to gains in CAF on disposal of the North American railcar operating lease portfolio in January 2015 and the restructure of an unrelated railcar logistics operating lease facility
  - gains on acquiring, disposing and change in ownership interest in subsidiaries and associates of $A190 million, up from $A26 million in the prior year primarily due to the sale of CAF's US equipment leasing business in March 2015
  - an increase of 11 percent in net operating lease income to $A585 million for the year ended 31 March 2015 from $A529 million in the prior year primarily due to favourable currency movements and acquisitions in CAF's Aviation portfolio
  - an increase of 34 percent in aggregate impairment charges on investment securities available for sale, associates and joint ventures and non-financial assets to $A356 million for the year ended 31 March 2015 from $A265 million in the prior year which included impairment of goodwill relating to legacy acquisitions and the write-down of certain assets associated with the restructure of a railcar logistics operating lease facility in CAF, and
  - an increase of 93 percent in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to $A467 million for the year ended 31 March 2015 from $A242 million in the prior year primarily due to higher provisions in CFM mainly due to the underperformance of certain credits and the downward movement in certain commodity prices, additional collective provisions in CAF reflecting portfolio growth and the changing mix of assets in the lending and finance leasing portfolios and an increase to the collective provision central management overlay in Corporate[1] to account for changes in current economic conditions.

(1) Corporate includes head office and central support functions including Group Treasury.

Operating expenses

Total operating expenses of $A6,771 million for the year ended 31 March 2015 increased 12 percent on the prior year mainly due to the following key drivers:

- an 11 percent increase in employment expenses to $A4,143 million for the year ended 31 March 2015 from $A3,736 million in the prior year primarily due to higher staff compensation resulting from the improved performance of the Group and the impact of the depreciation of the Australian dollar on offshore expenses. Headcount increased one percent from 13,913 at 31 March 2014 to 14,085 at 31 March 2015. The compensation ratio of 41.9 percent for the year ended 31 March 2015 decreased from 43.1 percent in the prior year
- a 35 percent increase in non-salary technology expenses from $A323 million in the prior year to $A437 million for the year ended 31 March 2015 primarily due to increased development activity to support business growth, including the development of a new Core Banking system in BFS and activity driven by increased regulatory compliance requirements, and
- a 19 percent increase in total other operating expenses from $A806 million in the prior year to $A957 million for the year ended 31 March 2015 largely driven by increased activity across the Group, the impact of the depreciation of the Australian dollar on offshore expenses and transaction related expenses for business and asset disposals and acquisitions in CAF.

Income tax expense

Income tax expense for the year ended 31 March 2015 was $A899 million, up nine percent on the prior year. The increase was mainly driven by a 20 percent increase in operating profit before income tax, from $A2,106 million in the prior year to $A2,522 million in the year ended 31 March 2015, partly offset by a decrease in income tax permanent differences. The effective tax rate for the year ended 31 March 2015 was 35.9 percent, down from 39.5 percent in the prior year, reflecting the nature and geographic mix of income and tax uncertainties.

In relation to the audit by the Australian Taxation Office (ATO), it has concluded and all outstanding matters have been resolved. Macquarie continues to be part of the Pre-lodgement Compliance Review process, whereby the ATO undertakes a review prior to the lodgement of Macquarie's tax returns.

Group financial position

Balance Sheet

The Group's balance sheet has been impacted by changes in business activities and movements in prices and rates since 31 March 2014. Total assets of $A188.0 billion at 31 March 2015 increased 22 percent from $A153.9 billion at 31 March 2014, while total liabilities increased 22 percent from $A142.0 billion at 31 March 2014 to $A173.6 billion at 31 March 2015.

The growth in the Group's balance sheet has largely been driven by the impact of the depreciation of the Australian dollar, growth in loan assets, trading assets and receivables from financial institutions (Treasury cash and liquid assets).

Key drivers of the movement in the balance sheet include:

- Treasury management initiatives during the year including significant new issuances of short term and long term debt issued at amortised cost and an increase in cash and liquid asset holdings with increased reverse repurchase agreements that led to an overall increase in receivables from financial institutions. These were partially offset by the sale of debt investment securities available for sale
- improved trading opportunities in equities driven by increased market volatility in certain emerging markets, particularly China, resulted in increased trading and reduced stock borrowing activity in MSG. This led to an increase in trading portfolio assets and liabilities and a reduction in receivables from financial institutions
- in CFM, growth of the physical metals business led to an increase in trading portfolio assets, which was partially offset by a reduction in Commonwealth Government bond holdings. Changes in interest rates, foreign exchange and commodity prices during the year also resulted in an increase in derivative assets and liabilities
- an increase in principal investments through acquisitions, combined with the impact of the depreciation of the Australian dollar, resulted in an increase in investment securities available for sale within MAM and Macquarie Capital
- increased lending activity was seen across the Group, leading to strong growth in loan assets held at amortised cost, including:
  - BFS' Australian mortgage portfolio grew 44 percent from $A17.0 billion at 31 March 2014 to $A24.5 billion at 31 March 2015, which included acquisitions of residential mortgage portfolios of $A2.5 billion during the year. This growth was partially offset by a reduction in the Canadian and US mortgage portfolios, which are in run-off and closed at a combined $A3.8 billion at 31 March 2015, down 31 percent from $A5.5 billion at 31 March 2014
  - BFS also increased business lending volumes by 27 percent from $A4.1 billion at 31 March 2014 to $A5.2 billion at 31 March 2015, and credit card volumes from $A0.3 billion at 31 March 2014 to $A0.6 billion at 31 March 2015 driven by the acquisition of the Woolworths credit card portfolio in May 2014
  - CAF's loan and finance lease portfolios of $A22.4 billion at 31 March 2015 increased 13 percent from the prior year driven by growth in the Lending and Leasing portfolios as a result of acquisitions along with the favourable impact of the depreciation of the Australian dollar, partially offset by the sale of the US equipment leasing business. The increased lending and leasing activity in CAF also resulted in an increase in external non-recourse funding through securitisations by the SMART Trusts and warehouse facilities
  - these increases were partially offset by reduced asset backed lending activity and redemptions from retail products in MAM
- operating lease portfolios within CAF benefited from acquisitions of aircraft and the impact of the depreciation of the Australian dollar, partially offset by the disposal of the North American railcar operating lease portfolio, resulting in a net increase in property, plant and equipment
- the issuance of Macquarie Bank Capital Notes (BCN) and foreign currency movements on foreign denominated debts resulted in increased loan capital.

Total equity increased $A2.5 billion from $A11.9 billion at 31 March 2014 to $A14.4 billion at 31 March 2015, largely due to a net increase in the foreign currency translation reserve driven by the impact of the depreciation of the Australian dollar, new share issuances in March 2015 through the institutional private placement of $A500 million and the share purchase plan of $A170 million, the dividend reinvestment plan of $A171 million and net retained earnings generated during the year.

Funding

Macquarie has a stable funding base with minimal reliance on short term wholesale funding markets. At 31 March 2015, the Group's term assets were covered by term funding maturing beyond one year, stable deposits and equity.

The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) decreased from 4.5 years at 31 March 2014 to 4.4 years as at 31 March 2015.

As at 31 March 2015, total deposits[(1)] represented $A39.7 billion, or 35 percent of the Group's total funding, short term (maturing in less than twelve months) wholesale issued paper represented $A12.5 billion, or eleven percent of total funding, and other debt funding maturing within twelve months represented $A9.2 billion, or eight percent of total funding.

During the year ended 31 March 2015, all remaining government guaranteed debt was repaid.

Macquarie has a liability driven approach to balance sheet management, where funding is put in place before assets are taken on to the balance sheet. Since 31 March 2014, MGL and MBL have continued to raise term wholesale funding.

Macquarie has continued to diversify its funding base and develop new markets including issuances in Australia, Japan, Switzerland, Norway, China and the United Kingdom.

Since 31 March 2014, the Group raised $A21.5 billion of term funding, including $A12.8 billion of term wholesale funding, $A8.3 billion of term secured finance and $A0.4 billion of BCN issuance. Wholesale term issuance of $A12.8 billion includes $A5.8 billion in senior unsecured debt issuance in the US market, $A4.5 billion in senior unsecured issuance in European, Australian, Japanese, Swiss and UK markets, $A2.3 billion in MBL private placements and structured notes and $A0.2 billion in MGL loan facilities. Term secured finance of $A8.3 billion includes $A4.3 billion of PUMA RMBS, $A3.2 billion of SMART auto & equipment ABS, $A0.3 billion of Macquarie Equipment Finance ABS and a net increase of $A0.5 billion of warehouse funding for SMART.

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

(1) Represents deposits available to fund Macquarie's assets. Excludes segregated client margin balances.

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Capital

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

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

– the Bank Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA ADI Prudential Standards, and
– the Non-Bank Group's capital requirement, calculated using Macquarie's ECAM. Transactions internal to the Macquarie Group are eliminated.

The Group has satisfied its regulatory capital requirements throughout the year. At 31 March 2015, the Bank Group had a Harmonised Basel III Common Equity Tier 1 Capital Ratio of 11.4 percent and a Harmonised Tier 1 Capital Ratio of 12.6 percent. The Bank Group's APRA Common Equity Tier 1 Capital Ratio was 9.7 percent and its APRA Tier 1 Capital Ratio was 11.0 percent as at 31 March 2015. The Group remains well capitalised with $A2.7 billion of eligible capital in excess of the minimum regulatory capital requirements(1).

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

(1) Calculated at 8.5 per cent Risk Weighted Assets (RWA) including capital conservation buffer (CCB), per the 1 January 2016 minimum requirements in APRA Prudential Standard 110. The APRA Basel III Group capital surplus is $A4.0 billion calculated at existing requirements of 7.0 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group.

Outlook

While the impact of future market conditions makes forecasting difficult, it is currently expected that the combined net profit contribution from operating groups for the financial year ending 31 March 2016 will be broadly in line with the financial year ended 31 March 2015.

The tax rate for the financial year ending 31 March 2016 is currently expected to be broadly in line with the second half of the financial year ended 31 March 2015, and down on the tax rate for the financial year ended 31 March 2015.

Accordingly, the Group's result for the financial year ending 31 March 2016 is currently expected to be slightly up on the financial year ended 31 March 2015.

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

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

Macquarie Asset Management (MAM)

MAM is a top 50 global asset manager with $A484 billion of AUM, offering a diverse range of products through three divisions:

Macquarie Infrastructure and Real Assets (MIRA)	Macquarie Investment Management (MIM)	Macquarie Specialised Investment Solutions (MSIS)
A global leader in alternative asset management, specialising in infrastructure, real estate, agriculture and energy. It is recognised as the world's largest infrastructure manager[1], operating more than 50 funds globally, with investments in 129 businesses, approximately 300 properties and 3.6 million hectares of farmland. Investing regionally with expert local investment and asset management teams, MIRA's client base is primarily institutional investors, including global pension and superannuation funds, other institutions and governments.	Offers securities investment management capabilities across a number of asset classes including fixed interest, currencies, equities, infrastructure securities, hedge funds and multi-asset allocation solutions. MIM manages $A348 billion in around 100 investment strategies. MIM also offers best of breed third party managed strategies in Australia through its Macquarie Professional Series funds.	Manufactures and distributes a range of tailored investment solutions over funds and listed equities including fund-linked products, principal protected investments, a hedge fund incubation platform, infrastructure debt funds management, restructuring solutions and agriculture investment solutions.

Medium term

MAM's medium term focus is to further grow AUM by continuing to deliver strong performance outcomes for clients, developing new and adjacent investment capabilities that meet evolving client needs, expanding its global distribution network and maintaining an efficient operating platform.

Performance

MAM contributed $A1.5 billion to Macquarie's total profit from operating groups for the year ended 31 March 2015, an increase of 38 percent on the prior year. It generated net operating income of $A2.4 billion, an increase of 27 percent on the prior year.

MAM had $A484 billion in AUM at 31 March 2015, an increase of 14 percent on the prior year.

MIRA reached a record $A66.2 billion in equity under management having raised $A8.3 billion in new equity commitments during the year, including $US1.4 billion for pan-Asia infrastructure investment and $US1 billion for its second China retail property fund. MIRA's fourth unlisted North American fund, Macquarie Infrastructure Partners III, raised a further $US841 million, to reach its final close with $US3 billion in investor commitments. The New York Stock Exchange-listed Macquarie Infrastructure Company (MIC) raised $US1.5 billion on market to support acquisitions.

MIRA invested equity of $A6.2 billion during the year into infrastructure assets in the US, Europe, Mexico, the Philippines, China, Russia, India and Korea, real estate in China and Mexico and agriculture in Australia and Brazil. Asset divestments of more than $A2.5 billion included €1.4 billion from the portfolio of Macquarie European Infrastructure Fund 1 (MEIF1) as it approaches maturity.

MIRA base fees continued to grow with equity under management, while performance fees were earned predominately from MIC, MEIF1 and Macquarie Atlas Roads.

MIRA was also named Global Fundraiser and Global Fund Manager of the Year by *Infrastructure Investor Magazine*.

MIM grew AUM by 12 percent with run rate revenue increasing as a result of positive net fund flows into higher fee earnings products and favourable foreign exchange and market valuations, partially offset by the impact of the Jackson Square Partners JV and management buy-out of the MIM Private Markets business. Investment performance across a range of asset classes continued to be strong, with the majority of funds outperforming their benchmarks over three years and several strategies receiving industry awards during the year, including six 2015 Lipper Awards[2] across the US and Asia. Strong performance fees were generated predominately in the alternative asset classes.

MIM continued to expand its global distribution network, with recruitment in the US, UK, Germany, Japan and Australia. Strong positive net inflows were generated in the Australian wholesale and US mutual fund channels, with $A6 billion in new funded institutional mandates secured globally. MIM launched several new funds and filled capacity in a number of strategies.

MSIS continued to grow the Macquarie Infrastructure Debt Investment Solutions (MIDIS) business, reaching second close on the UK Inflation-linked Infrastructure Debt Fund to bring total third party investor commitments on the MIDIS platform to over $A3.3 billion. MSIS also closed a number of investments, bringing total AUM to $A1.4 billion. MSIS secured its first mandate as sole underwriter for private equity secondaries fund financing and raised over $A600 million for Australian retail principal protected investments and specialist funds.

Outlook

Subject to the risks identified on pages 7 to 8, MAM currently expects its result for the year ending 31 March 2016 to be broadly in line with the year ended 31 March 2015.

(1) Towers Watson 2014 Global Alternatives Survey.
(2) For more information visit www.macquarie.com.au/mgl/au/mfg/mim/about-us/awards.

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Corporate and Asset Finance (CAF)

CAF manages a portfolio of $A28.7 billion, specialising in corporate and real estate lending and asset financing.

Lending

A corporate and real estate lending business providing customised capital solutions and financing to its clients through primary and secondary transactions. It is differentiated by its bespoke offering where it is a leading market participant and is also a niche acquirer of loans and other credit assets in the secondary market. The team has experience across a variety of industry groups including: real estate; infrastructure; telecommunications, media, entertainment and technology; leisure and healthcare.

Asset Finance

Macquarie Aviation

Provides operating leases of commercial jet aircraft to airlines, helping clients to increase fleet management capability and minimise market and equipment obsolescence risk.

Macquarie Leasing

A leading provider of finance leases, novated lease agreements and commercial hire purchases for motor vehicles and other plant and equipment in Australia with a presence in the UK.

Macquarie Energy Leasing

The largest provider of more than seven million traditional and smart meters in the UK mainly to major energy suppliers. It recently commenced financing solar energy assets in Australia.

Macquarie Rotorcraft Leasing

A full service helicopter operating leasing business supporting industries including offshore oil and gas, medical transport, search and rescue, utility and executive transport.

Mining Equipment Finance

Provides finance, operating leases and secured lending for mobile mining equipment to miners, contract miners and rental companies.

Macquarie Equipment Finance

Provides specialist equipment finance and services solutions globally in healthcare, technology, communications, materials handling, manufacturing and related equipment.

Macquarie European Rail

Offers operating lease financing for passenger and freight assets in Europe.

Medium term

CAF's medium term focus is to leverage its deep industry expertise to maximise growth potential in loan and lease portfolios, anticipate further asset acquisitions and realisations at attractive return levels and will continue to secure funding from asset securitisations throughout the cycle.

Performance

CAF contributed $A1.1 billion to Macquarie's total profit from operating groups for the year ended 31 March 2015, up 35 percent on the prior year. It generated net operating income of $A1.6 billion, up 32 percent on the prior year.

At 31 March 2015, CAF managed a lease and loan portfolio of $A28.7 billion, up 13 percent on the prior year.

Lending's funded loan portfolio totalled $A11.2 billion at 31 March 2015, up 24 percent on the prior year. Portfolio additions of $A4.7 billion for the year comprised:

– $A3.1 billion of new primary financings across corporate and real estate, weighted towards bespoke originations
– $A1.6 billion of corporate and commercial real estate loans and residential mortgages acquired in the secondary market.

Notable transactions included the re-leasing and exit of a railcar logistics facility, the acquisition of two residential mortgage portfolios in the UK and Germany totalling £140 million and €294 million respectively, and the provision of £104 million bespoke financing across two UK care home portfolios.

Asset quality within the lending portfolio remained sound and the portfolio continued to generate strong overall returns. Significant prepayment and realisation income arose from the re-leasing and exit of the railcar logistics facility and the refinancing of a leading French telecommunications company.

CAF's Asset Finance portfolio of $A17.5 billion was up six percent on the prior year due to foreign exchange movements.

In March 2015, CAF sold its US equipment leasing business, consisting of $US900 million in assets. CAF also sold its North American railcar operating lease portfolio during the year, comprising $US390 million in assets.

In March 2015, CAF entered into an agreement to acquire an aircraft operating lease portfolio from AWAS Aviation Capital Limited valued at approximately $US4 billion. The portfolio comprises 90 modern, current generation commercial passenger aircraft that will be acquired and delivered during the year ending 31 March 2016.

CAF's motor vehicle leasing portfolio continued to grow, with more than 300,000 contracts. Both its motor vehicle and equipment finance channels continued to expand through dealer networks in Australia and ongoing expansion in the UK. The Energy Leasing, European Rail and Mining Equipment Finance businesses continued to perform well.

CAF continued its securitisation activities with $A4 billion of motor vehicle and equipment leases and loans securitised.

Outlook

Subject to the risks identified on pages 7 and 8, CAF currently expects its result for the year ending 31 March 2016 to be broadly in line with the year ended 31 March 2015.

Banking and Financial Services (BFS)

BFS provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisers, brokers and business clients. BFS is focused on the Australian market, building on expertise developed over more than 30 years.

Personal Banking	Wealth Management	Business Banking
Provides retail financial products such as mortgages, credit cards and deposits. It serves personal banking clients through mortgage intermediary relationships and white-label arrangements, as well as Macquarie branded offerings.	Provides superannuation and insurance products, as well as financial advice, private banking, stockbroking, cash management and wrap platform services. It delivers products and services through institutional relationships, virtual adviser networks and dedicated direct relationships with its clients.	Provides a full range of deposit, lending and payment solutions, as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms, through a variety of channels including dedicated relationship managers.

Medium term

BFS remains focused on opportunities in Australian retail financial services.

BFS' medium term focus is to build on its successful intermediary and white-label partnerships to support the ongoing growth of third party distribution in Personal Banking and Wealth Management, as well as maximise opportunities to increase financial services engagement with existing Business Banking clients and extend into adjacent segments.

BFS is also investing in its technology to improve client experience, support growth and simplify, streamline and centralise its product and transactional functions.

Performance

BFS contributed $A285 million to Macquarie's total profit from operating groups for the full year ended 31 March 2015, an increase of 10 percent on the prior year. It generated net operating income from continuing operations[(1)] of $A1.3 billion, up 10 percent on the prior year.

BFS maintained its strong market position in its core Australian retail businesses, with approximately 1.1 million Australian clients at 31 March 2015. Retail deposits increased to $A37.3 billion at 31 March 2015, up 12 on the prior year.

BFS continued its digital transformation to improve prospective client experience and the scalability of its operating model, and is currently in year two of its five year program to deliver a Core Banking platform with real time capability.

Personal Banking: The Australian mortgage portfolio grew to $A24.5 billion at 31 March 2015, representing 1.7 percent of the Australian mortgage market. This includes $A2.5 billion in residential mortgage portfolios acquired during the year. BFS continued to maximise strong growth opportunities that exist through intermediary distribution and white-labelling, entering into white-label agreements with Real Home Loans and Mortgage Choice. The business was named home loans Partner of the Year in the iSelect 2014 *Partner Awards* and ranked first in the Brokers on Non-Majors 2014 survey by *Australian Broker Magazine*.

(1) Excludes MPW Canada from comparative periods which BFS exited in November 2013.

After signing an agreement as credit card issuing partner for the Woolworths Money Everyday and Woolworths Money Qantas Credit Cards in May 2014, BFS successfully completed the migration of accounts and data to internal systems in October 2014.

Wealth Management: Macquarie platform assets under administration grew strongly to $A48.0 billion at 31 March 2015, up 19 percent on 31 March 2014 due to strong net inflows and market movement.

During the year, the Macquarie Life inforce book increased 17 percent due to strong underlying business fundamentals and new business volumes. The business was awarded five-star status in the *Beaton Benchmarks 2014 – Life Insurance Intermediaries Study* for the seventh consecutive year, remaining the only five-star rated insurer in the market at this time.

Business Banking grew its average deposit volumes by 19 percent and the loan portfolio grew to $A5.2 billion as at 31 March 2015, up from $A4.1 billion in the prior year. It also delivered new solutions to improve SME clients' business productivity including managing billing, collections and office administration, with the number of SME clients increasing 13 percent over the year.

Outlook

Subject to the risks identified on pages 7 and 8, BFS currently expects its result for the year ending 31 March 2016 to be up on the year ended 31 March 2015.

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Macquarie Securities Group (MSG)

MSG is a global institutional securities house with strong Asia-Pacific foundations, covering sales, research, ECM, execution and derivatives activities.

Cash Division	Derivatives and Trading Divisions
Operates as a full-service institutional cash equities broker in Australia, Asia, South Africa and Canada, with a specialised institutional cash equities broker offering in the US and Europe. It provides an ECM service through a joint venture with Macquarie Capital. Its key specialties include: financial institutions; industrials; infrastructure, renewables and utilities; resources (mining and energy); small-mid caps; and telecommunications, media, entertainment and technology (TMET).	Issues retail derivatives in key locations, provides Delta 1 products and equity finance solutions to its institutional client base and conducts risk and trading activities.

Medium term

MSG's medium term focus is to remain well positioned for recovery in Asian retail derivatives, cash equities and ECM, given it is highly leveraged to any improvement in market conditions and return of investor confidence. MSG is focused on monetising its existing strong research platform and is positioned to participate in the significant opportunity offered as China liberalises foreign investment rules and increases access to its mainland securities markets.

Performance

MSG reported a net profit of $A64 million for the year ended 31 March 2015, a decrease from the prior year profit of $A107 million. It generated net operating income of $A918 million, up six percent on the prior year.

Brokerage income remained relatively flat while ECM activity increased on the prior year largely driven by Australia. Certain markets experienced favourable conditions which benefited the derivatives and trading divisions. Operating expenses, excluding brokerage, commission and trading-related expenses, were up 11 percent on the prior year, largely due to increased investment in platforms and processes driven by regulatory compliance requirements, as well as restructuring costs from the exit of Structured Products.

The **Cash Division** experienced mixed levels of activity, with improved client activity in Australia and Europe, offset by weaker client volumes across Asia and North America. MSG maintained its leading positions for Australian equities ranked equal No.1 by Australian institutional investors in the 2014 *Peter Lee Associates Survey*. Its global research coverage totals more than 2,300 listed companies, highlighting the extent of its market and industry knowledge. MSG reached a new high in US stock coverage during the year, driven by a significant expansion of its US Emerging Leaders company coverage and aligns the US with Macquarie's leading small-mid cap franchise in Asia and Australia.

ECM activity continued to be strong in Australia, with notable deals during the year including the $A5.7 billion Medibank Private and $A3.6 billion Healthscope IPOs, as well as the $A1.8 billion APA Group rights offering. Macquarie was ranked No.2 by Dealogic and Thomson Financial for all equity raising across Australia in calendar year 2014 and No.1 for IPOs by value and number of deals completed.

The **Derivatives and Trading Divisions** benefited from favourable market conditions in China combined with greater market access due to quota increases and the launch of China Stock Connect in November 2014 allowing international clients to trade eligible China-A shares. Macquarie Bank Limited was awarded an additional $US400 million of QFII quota by China's State Administration for Foreign Exchange during the year, bringing its total approved quota to $US800 million. This important development gives MSG the opportunity to continue growing its investment footprint in China's mainland yuan-denominated securities markets.

MSG maintained its No.1 ranked market share in listed warrants in Singapore, was No.3 in Thailand and No.7 in Hong Kong. In October 2014, MSG launched its Malaysian structured warrants business and achieved No.1 ranked market share in the quarter ended 31 March 2015. Macquarie is the only issuer in the region with an active presence in more than two warrant markets and its launch in Malaysia confirms MSG's position as the leading warrant issuer in Asia by coverage.

Outlook

Subject to the risks identified on pages 7 and 8, MSG currently expects its result for the year ending 31 March 2016 to be up on the year ended 31 March 2015.

Macquarie Capital

Macquarie Capital provides corporate finance advisory and capital market services to corporate and government clients involved in public and private M&A, debt and equity fund raisings, private equity raisings and corporate restructuring. Macquarie Capital has built a global corporate finance capability, strong client relationships and market expertise. Its advisory activities are aligned with expertise in financial institutions; industrials; infrastructure, utilities and renewables; real estate; resources (mining and energy); and TMET.

Advisory	Equity and Debt Capital Markets	Principal Investments
M&A, structuring, divestments, takeover responses, restructuring, project finance and private capital expertise.	Underwriting and advising companies seeking to raise equity including initial listings on stock exchanges and follow-on raisings. Debt advisory, underwriting and lending services in all major financial centres.	A specialised service using the Macquarie balance sheet to help support clients in developing their businesses and achieving their goals. Macquarie Capital invests across the capital structure.

Medium term

Macquarie Capital focuses on regions and sectors where its strong specialist capabilities can deliver client value. Macquarie Capital is able to combine advice with access to capital by deploying equity and debt in support of our clients and in response to market opportunities.

Performance

Macquarie Capital contributed $A430 million to Macquarie's total profit from operating groups for the year ended 31 March 2015, up 54 percent on the prior year. It generated net operating income of $A1.1 billion, up 29 percent on the prior year.

The business advised on 470 transactions worth $A141 billion during the year.

In **Australia and New Zealand**, Macquarie Capital consolidated its leading market position in M&A, advisory, public private partnerships and capital markets activity across all industry sectors while continuing to partner with clients on several large principal transactions. In the 2014 calendar year, Macquarie Capital was ranked No.1 in Australia for number of announced and completed M&A transactions by Thomson Financial and Dealogic. Macquarie was also ranked No.1 in Australia for IPOs and No.2 for Australian equity and equity related deals in 2014.

Notable transactions for the region include:

- Adviser, Joint Lead Manager (JLM) and Bookrunner on APA Group's $A1.8 billion accelerated renounceable entitlement offer in connection with the $A5 billion acquisition of the QCLNG pipeline
- JLM on the $A5.7 billion IPO of Medibank Private, the largest Australian IPO in 2014, and the second largest Australian IPO ever
- Joint Global Co-ordinator on the $A3.6 billion IPO of Healthscope Limited
- Joint Financial Adviser to QIC on the $A7 billion sale of Queensland Motorways to a consortium comprising Transurban, AustralianSuper and Tawreed Investments Limited, the largest transport infrastructure M&A transaction ever in Australia.

In **Asia**, Macquarie Capital's regional footprint and broad expertise allows Macquarie Capital to be a leader in cross-border transactions including:

- Adviser to Emperador for its acquisition of Whyte & Mackay from United Spirits for £430 million
- Joint Sponsor, Joint Global Coordinator, Joint Bookrunner and JLM for the $US1.2 billion (pre-greenshoe) IPO of China CNR Corporation Limited
- Adviser on the $US1 billion strategic alliance between Piramal Enterprises and APG Asset Management focused on mezzanine investments in Indian infrastructure.

In **Europe, the Middle East and Africa**, Macquarie Capital has delivered solutions for its clients by combining advice with its ability to deploy capital across its product range. This has allowed Macquarie Capital to strengthen its position in infrastructure, German midcaps and other more niche sectors. Notable transactions include:

- Sole Sponsor and exclusive Financial Adviser to IHS Lothian for the project finance facilities of £185 million to the Royal Hospital for Sick Children PPP project in Edinburgh
- Adviser to Salamander Energy plc's Board on its £314 million recommended acquisition by Ophir Energy plc
- Adviser to Canada Pension Plan Investment Board in relation to its £1.1 billion acquisition of Liberty Living, the second largest off-campus student accommodation owner-operator in the UK.

In the **Americas**, momentum continued across sectors and products, including the following notable transactions:

- Adviser to Freeport LNG on its landmark $US11 billion equity and debt raising to project finance its LNG export facility in Texas
- Adviser to Bally Technologies on its $US5.1 billion sale to Scientific Games
- Provided committed financing and acted as Bookrunner on multiple capital markets transactions to support SunEdison and Terraform Power's $US2.4 billion acquisition of First Wind
- Co-lead Underwriter for Osisko Gold Royalties Ltd's fully subscribed $C200 million private placement of Special Warrants.

Outlook

Subject to the risks identified on pages 7 and 8, Macquarie Capital currently expects its result for the year ending 31 March 2016 to be up on the year ended 31 March 2015.

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Commodities and Financial Markets (CFM)

CFM provides clients with risk and capital solutions across physical and financial markets. CFM comprises the following divisions:

Commodities (Physical and Financial)		Financial Markets (Primary and Secondary)	
Energy Markets	**Metals, Mining & Agriculture**	**Fixed Income & Currencies**	**Credit Markets**
Provides a full spectrum offering to clients with exposure to the energy sector. The division provides risk management, lending and financing, and physical execution and logistics services across Global Oil, North American Gas and Power, EMEA Gas, Power and Emissions, Australian Power, and Coal.	Provides risk management, lending and financing, and physical execution and logistics services to producers and consumers across the metals, industrial minerals, bulk commodities and agricultural sectors globally. The division also offers commodity-based index products to institutional investors.	Provides financial hedging, finance and access to market pricing for corporate and institutional clients in foreign exchange and fixed income markets.	Facilitates client transactions with institutional investors and makes secondary markets in corporate debt securities, syndicated bank loans and middle market loans, in addition to providing specialty lending for commercial mortgage finance, asset-backed and mortgage-backed securities.

Futures

Provides a full range of execution, clearing and financing solutions to corporate and institutional clients, providing 24-hour coverage of all major markets globally. The division has specialist expertise in energy, freight, grains and soft commodities as well as a market leading position in Australian interest rate products.

Central

Fosters and develops various non-division specific, early stage or cross-divisional initiatives, as well as housing CFM-wide services including Structured Commodity Finance, Cross-Product Sales, Structured Global Markets and Private and Structured Finance.

Medium term

Over the medium term, CFM remains focused on: pursuing opportunities to grow its commodities business, both organically and through acquisitions; developing institutional coverage for specialised credit, rates and foreign exchange products; increasing its financing activities; and growing its client base across all regions.

Performance

CFM contributed $A835 million to Macquarie's total profit from operating groups for the year ended 31 March 2015, an increase of 15 percent on the prior year. It generated net operating income of $A1.8 billion, an increase of nine percent on the prior year.

The improved result reflected a general improvement in market conditions compared to the prior year.

Energy Markets was a significant contributor to CFM's overall result with revenues generated across the global energy platform, particularly in Global Oil and North American Gas. The realisation of a fee from Freeport LNG Terminal in Texas, US, also contributed to the strong result. Macquarie Energy was ranked by Platts as the No.3 US physical gas marketer in North America.

Metals, Mining and Agriculture experienced continued growth in its base metals platform across financing, physical execution and hedging activities. Overall customer activity was mixed, with improved activity in base metals and lower levels in agriculture and precious metals. Further provisions for impairment were taken on underperforming resources investments and loans.

Fixed Income and Currencies benefited from increased client volumes as volatility in foreign exchange and interest rate markets improved, particularly in the second half. Transaction flows across securitisation and origination businesses continued to grow, particularly in the UK and Europe. The international customer base continued to grow during the year.

Credit Markets in the US were mixed, influenced by the continued low interest rate environment, increased liquidity in Europe and the end of US Federal Reserve quantitative easing. New issuance volumes and fees in Debt Capital Markets increased as M&A activity increased, while investor demand for high yield products continued to increase as credit spreads tightened.

Futures volumes were mixed during the year but improved in the second half due to increased market volatility and associated client activity, particularly in commodity and energy markets. Macquarie maintained its No.2 overall market share ranking in ASX24 Futures during the year.

Outlook

Subject to the risks identified on pages 7 and 8, CFM currently expects its result for the year ending 31 March 2016 to be broadly in line with the year ended 31 March 2015.

This is the end of the Operating and Financial Review.

Corporate Governance Statement

Macquarie's approach to Corporate Governance

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

- promote the long term profitability of Macquarie while prudently managing risk
- drive superior and sustainable shareholder value over the long term through the alignment of the interests of shareholders and staff
- meet stakeholder expectations of sound corporate governance as part of Macquarie's broader responsibility to clients, shareholders, investors and the communities in which it operates.

Macquarie recognises that a key factor in delivering long term shareholder returns is providing superior services to clients. Macquarie's *Code of conduct* sets out the way staff are expected to do business.

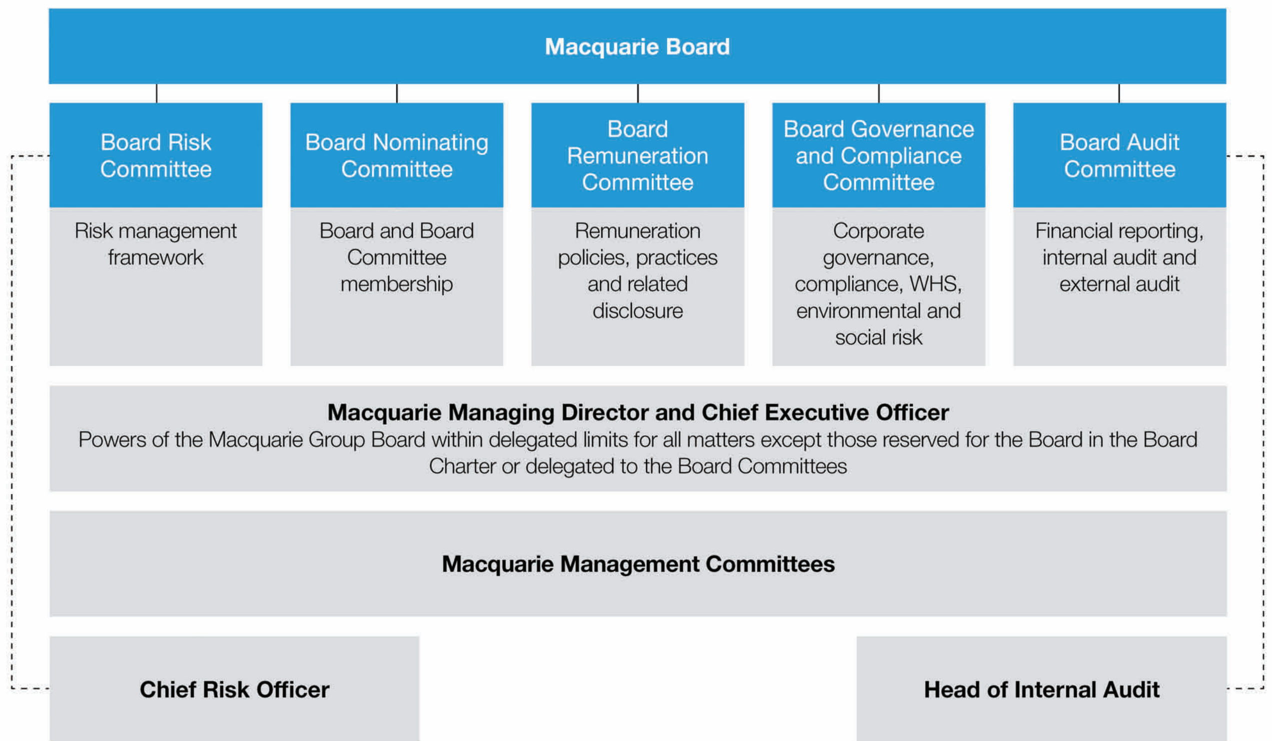
Macquarie is a global financial services provider with a diverse range of activities across different locations. Its shares are listed on the Australian Securities Exchange (ASX). Macquarie is regulated by APRA, the Australian banking regulator, as the NOHC of Macquarie Bank Limited, an ADI. APRA's prudential standards include governance and risk management requirements. A number of Macquarie subsidiaries are supervised by regulators in the overseas jurisdictions in which they operate. The notes to Macquarie's financial statements include a list of material subsidiaries of the company.

Macquarie's governance practices were consistent with the recommendations in the 2nd edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Recommendations) throughout the year. A summary of the ASX Recommendations and reference to the applicable Macquarie governance practice is available on Macquarie's website at macquarie.com/leadership-corporate-governance

During FY2015 Macquarie reviewed its corporate governance and reporting practices in light of the new 3rd edition of the ASX Recommendations and expects to be consistent with the 3rd edition of the ASX Recommendations from 1 April 2015.

This Corporate Governance Statement has been approved by the Board.

Corporate Governance framework



Corporate Governance Statement
continued

Board oversight

The primary role of the Board is to promote Macquarie's long term health and prosperity. The *Board Charter* details the Board's role and responsibilities which include approving strategy, adopting an annual budget, approving Macquarie's RAS and risk management strategy, appointing Macquarie's Chief Executive Officer and considering matters relating to remuneration and diversity.

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

A copy of the *Constitution* and *Board Charter* are available on Macquarie's website at macquarie.com/leadership-corporate-governance

The Macquarie Board consists of ten Directors, nine of whom are independent. Kevin McCann, an independent Director, is Chairman. Nicholas Moore, Macquarie's Managing Director and Chief Executive Officer (CEO), is the only executive Board member.

During the year, Gordon Cairns was appointed to the Board effective from 1 November 2014 and Helen Nugent and Peter Kirby retired on 24 July 2014. Schedule 1 of the Directors' Report includes each Director's experience and date of appointment to the Board.

The table below sets out the current composition of the Board and the membership of each Board Committee. Members' attendance at Board and Board Committee meetings during the past year is set out in the Directors' Report.

Responsibilities of management

The Board has reserved certain matters for its approval as set out in the *Board Charter*. It has delegated specific authorities to its various Board Committees which are detailed in each *Board Committee Charter*. The Board also determines delegations to Management, approves relevant limits and reviews business developments for consistency within the Board-approved RAS and risk management strategy.

The CEO has been granted authority for those matters not reserved for the Board or a Board Committee. Macquarie's Management Committees assist in the exercise of the CEO's delegated authority. The CEO, the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) report to the Board at each monthly Board meeting. In addition to regular reporting from Management, the Board has unlimited access to senior management as well as external advisers.

The Company Secretary is appointed by and accountable to the Board, through the Chairman, for matters relating to the proper functioning of the Board.

Board and Board Committee membership

	Macquarie Board	Audit	Governance and Compliance	Nominating	Remuneration	Risk
Macquarie Independent Directors						
Kevin McCann AM[1]	Chairman			Chairman	Member	Member
Gary Banks AO	Member			Member	Member	Member
Gordon Cairns	Member			Member	Member	Member
Michael Coleman	Member	Chairman	Member	Member		Member
Patricia Cross	Member	Member		Member		Chairman
Diane Grady AM	Member		Member	Member	Member	Member
Michael Hawker AM	Member	Member	Chairman	Member		Member
Nicola Wakefield Evans	Member	Member	Member	Member		Member
Peter Warne	Member			Member	Chairman	Member
Macquarie Managing Director and Chief Executive Officer						
Nicholas Moore[1]	Member					

(1) The Chairman and the CEO attend meetings of Board Committees of which they are not a member as a matter of course.

Board Committees

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

The Risk, Audit, Governance and Compliance, Nominating and Remuneration Committees comprise members who are independent directors. The *Board Committee Charters*, detailing the responsibilities of each Committee and how they exercise their authority, are available on Macquarie's website at macquarie.com/leadership-corporate-governance

Allocation of responsibilities between Board Committees

The **Board Risk Committee** (BRiC) assists the Board by providing oversight of the implementation and operation of Macquarie's risk management framework and advising the Board on Macquarie's risk position, risk appetite, risk culture and risk management strategy. The BRiC receives information on material risks and external developments that may have an impact on the effectiveness of the risk management framework.

The **Board Audit Committee** (BAC) assists the Board with its oversight of the integrity of the financial statements. The BAC is also responsible for reviewing the adequacy of the Group's control framework for financial regulatory reporting to banking regulators and monitoring the internal financial control environment. The BAC reviews reports from the external auditor and Internal Audit, referring matters relating to the duties and responsibilities of the BRiC and Board Governance and Compliance Committee to the appropriate Committee.

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

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

The **Board Nominating Committee** (BNC) is responsible for assisting the Board to ensure that it has an appropriate mix of skills, experience and diversity to be an effective decision-making body in order to provide successful oversight and stewardship of Macquarie.

Director Independence

Macquarie recognises that independent directors have an important role in assuring shareholders that the Board is able to act in the best interests of Macquarie and independently of Management.

The independence of Non-Executive Directors (NEDs) is reviewed annually by the BGCC and then considered by the Board as part of its review of the BGCC minutes. Based on Macquarie's criteria for assessing director independence, each independent Director is asked to confirm whether they have any material interests or relationships with Macquarie that could interfere with the exercise of their independent judgement. There were no material or substantial relationships noted by Directors in their annual declaration. Some of the Directors hold or have previously held positions in companies and professional service providers with which Macquarie has commercial relationships. All dealings with these companies and with professional service providers are and have been on arm's length commercial terms. Each Director's date of appointment, experience and directorships are set out in Schedule 1 of the Directors' Report.

Consistent with the 3rd edition of the ASX Recommendations, the following interests or associations of the type described in the commentary to the relevant recommendation were noted by the BGCC. Mr McCann has been on the Board for a period that exceeds Macquarie's tenure policy, and a family member of Mr Coleman is employed as a Division Director of Macquarie. BGCC members considered that neither factor impacts their independence because, in the course of Board deliberations, they demonstrate independent judgement and an objective assessment of all matters before the Board.

Similarly, the BGCC has determined that there are no interests or relationships that could materially interfere with each of the other NEDs' ability to act independently of management and in the best interests of Macquarie. Therefore, excluding the CEO, all Directors continue to be independent.

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 also have unlimited access to senior management of Macquarie.

Macquarie's criteria for assessing director independence, including materiality thresholds, is available on the Macquarie website at macquarie.com/leadership-corporate-governance

Corporate Governance Statement
continued

Board Renewal

The Board with the assistance of the Board Nominating Committee regularly assesses the skills, experience and diversity required collectively for the Board to effectively fulfil its role. Macquarie's *Policy on Board Renewal and Appointment of Directors* sets out the fundamental factors relevant to the selection and appointment of new Directors and is available on Macquarie's website at macquarie.com/leadership-corporate-governance

The Board is comprised of highly experienced senior business leaders from a variety of professional backgrounds who each meet the fundamental requirements and, collectively, possess the skills, experience and diversity considered necessary to appropriately govern an ASX-listed global financial services provider.

A summary of the key skills and experience of the ten members of the Board is set out below.

Skills and experience	No. of Directors
Financial Services/Retail Banking	8
Investment Banking/Corporate Banking/Financial Markets/Funds Management	9
Financial acumen	10
Listed company board experience	9
International background/experience	9
Senior management role	9
Accounting	2
Law	3
Human capital management	8
Business development and strategy	10
Regulation and public policy	8

The qualifications, skills and experience of the individual members of the Board are set out in Schedule 1 of the Directors' Report.

New NEDs are appointed for three 3-year terms from first election by shareholders. The Board has discretion to extend a NED's term of appointment if the Board determines that extending the term will be of significant benefit to Macquarie. At the 2014 Annual General Meeting (AGM), consistent with the Board's recommendation, shareholders re-elected the Chairman, Kevin McCann, for a further three-year term.

Director appointment, induction and development

In accordance with Macquarie's *Fit and Proper Policy*, prior to appointing a person to the Macquarie Board, appropriate background checks are undertaken. New Directors stand for election at the first AGM following their appointment. The notice of meeting provides shareholders with material information relevant to a decision as to whether to elect a Director including their skills, experience, other directorships and an acknowledgement that they will have sufficient time to fulfil their responsibilities as a Director.

All new Directors receive an appointment letter setting out the key terms and conditions of their appointment. They also undertake an induction program covering relevant matters such as Board practices and procedures, prudential requirements and briefings with senior management. NEDs identify business awareness needs on an ongoing basis and regular Board workshops are held during the year. In addition to workshops, the Board travels to various Macquarie overseas offices annually and the Chairman also visits other Macquarie overseas operations at least annually.

Board performance

The Board and Directors

The Board reviews its performance and the performance of each Director on an annual basis with emphasis on those individual Directors who are required to stand for re-election at the next AGM. Material information relevant to a decision on whether or not to re-elect a Director, is provided to shareholders in the explanatory notes to Macquarie's notice of meeting.

The process for conducting the review is agreed by the Board. Typically the process includes individual interviews by the Chairman or an external facilitator with each Director, and the use of a questionnaire to cover matters such as:

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

A nominated independent Director or an external facilitator provides feedback to the Chairman on the Chairman's performance based on discussion with the other Directors. A written report summarising the results, issues for discussion and recommendations is presented to the Board and discussed at a Board meeting.

The Board's review in FY2015 was conducted internally and for FY2016 will be conducted with the assistance of an external facilitator, both in accordance with the process described above.

Board Committees

As part of the Board's annual performance evaluation, the functioning of the Board Committees is reviewed. 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, which is led by the Chairman of the respective Board Committee.

A summary of the processes adopted by Macquarie for *Board and Key Executive Performance Review* is available on Macquarie's website at macquarie.com/leadership-corporate-governance

Performance of key executives

Formal processes have been adopted by Macquarie to review the performance of Macquarie's most senior executives. The BRC oversees the process for the CEO's annual performance review.

As part of the annual review, the CEO prepares a formal report on his performance and presents to the NEDs. The NEDs review performance by considering a range of indicators including financial position and performance, people and culture, sustainability (planning and investment in the future) and community. A similar process is followed to review the performance of the CEO of Macquarie Bank. The NEDs also have regard to any risk management and compliance matters as reported by the CRO.

The CEO evaluates, at least annually, the performance of the Operating Group Heads, the CRO, the CFO and the Chief Operating Officer (COO). Performance criteria vary according to the individual's role. Factors relevant to assessing performance include (as appropriate) financial performance, risk management and compliance, business leadership and people leadership (including upholding Macquarie's *Code of conduct*). The CEO reports to the BRC on the performance of these key executives and recommends individual senior executive remuneration for Board approval.

The Board and the CEO seek to ensure that remuneration for the CRO is determined in a way that preserves the independence of this 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 and performance review for Executive Key Management Personnel is found in the Remuneration Report in the Directors' Report.

Ethical and responsible decision-making

Code of conduct

The Code, which has been approved by the Board, incorporates *What We Stand For*: the principles of Opportunity, Accountability and Integrity that guide the way staff conduct business. The Code provides clear guidance to staff on good decision making and escalation, encouraging staff to speak up and report genuine concerns about misconduct. The Code reinforces Macquarie's policies in relation to the protection of whistleblowers. The Code also summarises the standards, policies and processes regarding conflicts of interest, disclosure and corruption.

To ensure that Macquarie's culture of honesty and integrity remains strong throughout the organisation, all staff who join Macquarie receive specific training on *What We Stand For* and the Code. Existing staff also receive training and sign an annual declaration that they have reviewed the Code.

A copy of *What We Stand For* and the Code are available on Macquarie's website at macquarie.com/what-we-stand-for

Integrity office

Macquarie established the Integrity Office in 1998. In addition to providing an independent and confidential point of escalation for staff to raise concerns, the Integrity Office works with business groups to support staff in good decision making and to promote the principles of *What We Stand For*. The Integrity Office is responsible for Macquarie's externally managed staff hotline that enables staff to report suspected breaches of the Code, or other misconduct, anonymously.

The Integrity Office reports directly to the CEO and provides an annual report to the BGCC.

Dealing with potential conflicts

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

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 policies and divisional policies, systems, lists, information protocols and appropriate disclosures. The appropriate mechanism to manage a conflict will depend on the circumstances and nature of the conflict. Conflict management arrangements at Macquarie are subject to the oversight function of the Compliance Division within RMG.

Corporate Governance Statement
continued

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

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

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

Staff and Director trading

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

– **pre-clear securities trading**: Directors and staff must pre-clear their securities trading with Macquarie
– **trading windows**: Generally, Directors and staff may only trade in Macquarie securities and related derivatives during designated trading windows. These are typically of three to five weeks duration and follow Macquarie's announcement of its interim and full year results and after the AGM
– **excluded dealings**: Certain types of transactions such as acquisition of securities under an employee share plan or participation in the dividend reinvestment plan may be effected outside a trading window without pre-clearance
– **trading prohibition while in possession of material non-public price-sensitive information**: In all cases Macquarie prohibits Directors and staff from dealing in any security, including a Macquarie security, if they possess non-public price-sensitive information about or affecting the relevant security
– **deferred and unvested equity awards, 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 that are subject to retention arrangements, or their deferred and unvested equity awards. NEDs may 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 staff are not permitted to take net short positions in Macquarie shares or any securities in Macquarie-managed funds.

Macquarie's *Trading Policy* sets out the restrictions that apply to dealing in Macquarie securities by Macquarie staff, including Key Management Personnel, and is available on its website at macquarie.com/leadership-corporate-governance

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

Corporate governance in Macquarie-managed funds

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

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

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

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

Diversity

The diversity of our people remains fundamental to Macquarie's success. Macquarie's *Workforce Diversity Policy* defines Macquarie's diversity commitment and the structures in place to ensure it is realised. The principles contained in our *Workforce Diversity Policy* are incorporated in the *Our Commitment to Workforce Diversity* statement available on Macquarie's website at macquarie.com/diversity

Macquarie has implemented an extensive range of programs and initiatives to support the achievement of its diversity and inclusion strategy over the past year.

Macquarie's measurable objectives for achieving diversity are detailed in the Diversity Report.

Macquarie and the community

Macquarie engages in the wider community through the Macquarie Group Foundation (the Foundation). Together with Macquarie staff, the Foundation has contributed more than $A240 million to over 2,500 community organisations since its inception in 1985. Staff also volunteer at a number of community organisations globally. In the year ended 31 March 2015, the Foundation and Macquarie staff contributed approximately $A24.2 million.

Further information is included in the Macquarie Group Foundation section of this Annual Report.

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, and timely manner. Macquarie has a continuous disclosure policy that 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
- not omit material information
- be timely and expressed in a clear and objective manner.

Macquarie's continuous disclosure procedure includes reference to and consideration by Macquarie's Disclosure Committee as appropriate. A summary of the *External Communications Policy* is available on Macquarie's website at macquarie.com/leadership-corporate-governance

Macquarie has an investor relations program to facilitate effective two-way communication with investors and analysts, to provide a greater understanding of Macquarie's business, performance, governance and financial prospects.

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, time and venue convenient to its shareholders. For shareholders who are unable to attend in person, Macquarie provides a webcast of its AGM and any other general meetings. The results of all resolutions are lodged with ASX after the meeting as soon as they are available.

This year Macquarie's AGM will be held in Sydney, Australia. 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 proposed motions by appointing a proxy. The proxy form included with a notice of meeting will explain how to appoint a proxy.

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.

Macquarie seeks that its shareholder meetings are conducted in a manner which is courteous for those attending. In the interests of attending shareholders, the chair of the meeting will exercise his or her powers as the chair to ensure that the meeting is conducted in an orderly and timely fashion.

A shareholder calendar is available on Macquarie's website at macquarie.com/investors

Macquarie's website

Macquarie's website contains recent announcements, past and current reports to shareholders, including summaries of key financial data, and copies of recent notices of meeting. There is also a link allowing investors to register to receive email notification of Macquarie public announcements. Shareholders can also elect to receive communications electronically by contacting the share registry.

Recent AGM webcasts, year-end and interim results presentations and operational briefing presentations are available on Macquarie's website at macquarie.com/investors

Corporate Governance Statement
continued

Financial reporting

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

- the integrity of Macquarie's financial reporting and the operation of the financial reporting processes. The processes are aimed at providing assurance that the financial statements and related notes are complete, in accordance with applicable legal requirements and accounting standards, and give a true and fair view of Macquarie's financial position. During its review of Macquarie's interim and year-end financial reports the BAC meets with the external auditor in the absence of Management
- the external auditor engagement. The BAC reviews the appointment, the terms of the engagement and the performance of the external auditor before making recommendations to the Board on the appointment and removal of the external auditor
- the operation of Internal Audit and Credit Assurance (CA). The BAC reviews the independence, appointment, performance and remuneration of the Head of the Internal Audit Division (IAD), as well as monitoring the effectiveness of Internal Audit. It also provides oversight of the IAD and CA annual plans
- Macquarie's control framework for financial regulatory reporting to banking regulators.

Auditor independence

Before the approval of the interim and year-end financial reports, the BAC reviews the independence of the external auditors in accordance with the Act, the Macquarie *Auditor Independence Policy,* and the *BAC Charter.*

Macquarie's *Auditor Independence Policy* requires BAC approval, or between meetings the approval of the BAC Chairman, for material non-audit work performed by its auditors. Also under the policy, which reflects Australian legal requirements, Macquarie's lead auditor and review auditor must be rotated every five years unless the Board grants approval to extend the term for up to a further two years.

Mr Kim Smith of PricewaterhouseCoopers (PwC) is Macquarie's lead auditor for FY2015.

The *BAC Charter* and the *External Auditor Policy Statement* describe key aspects of Macquarie's *Auditor Independence Policy* and external auditor selection process. They are available on Macquarie's website at macquarie.com/leadership-corporate-governance

Chief Executive Officer and Chief Financial Officer declaration

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

Oversight of risk management

Macquarie's approach to risk management is detailed in the Risk Management Report and is available on Macquarie's website at macquarie.com/leadership-corporate-governance

The Board monitors significant business risks and reviews how they are managed. The Board also monitors Macquarie's risk management framework, including by forming a view of Macquarie's risk culture and approving Macquarie's risk appetite statement and risk management strategy.

All independent Directors are members of the BRiC to provide oversight of the implementation and operation of Macquarie's risk management framework and constructively challenge Management's proposals and decisions on risk management arising from the Group's activities.

The CRO is a member of Macquarie's Executive Committee and reports directly to the CEO. The CRO has a secondary reporting line to the BRiC which approves the replacement, appointment, reassignment or dismissal of the CRO. The CRO presents on risk matters at the BRiC meeting, and in months where there is no scheduled BRiC meeting, at the Board meeting. During the year, senior management has reported to the Board on the effectiveness of risk management and internal control systems in addressing material risks.

At the executive management level, senior management committees focus on strategic issues, operational issues, material transactions, the management of risk and review the performance of Macquarie on a monthly basis. There are also other committees where senior specialists focus on specific risks as appropriate. The Market Risk Committee and the Asset and Liability Committee are examples of these committees.

Internal audit

IAD provides independent assurance to Management and the Board on the adequacy and operational effectiveness of Macquarie's internal control, risk management and governance systems and processes. IAD findings are reported to the BAC. The Head of IAD is jointly accountable to the BAC and the CRO. The BAC approves the replacement, appointment, reassignment or dismissal of the Head of IAD.

Environmental, Social and Governance risk

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

Macquarie's approach is detailed in the ESG Report. Macquarie has continued efforts to: manage ESG risks in its business activities; advance environmental management; and pursue investments, markets and products with an ESG focus, including in renewable energy and energy efficiency. Macquarie values its people and continues to invest in the development and well-being of its diverse talent base. A Global Reporting Initiative (GRI) index is available on Macquarie's website.

Oversight of remuneration arrangements

The Board of Directors oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Macquarie's NEDs. The Board is assisted by the BRC. The BRC annually reviews that Macquarie's remuneration approach remains appropriate and creates a strong alignment of staff and shareholders' interests while prudently managing risk.

Unlike Macquarie executives, NEDs are not granted equity, nor are they eligible to receive bonus payments. They do not receive payments on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. Macquarie's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders, currently $A4 million. Details of Macquarie's approach and the amount of remuneration paid to NEDs are contained in the Remuneration Report in the Directors' Report.

To align the interests of the Board with shareholders, NEDs are required to progressively acquire a minimum of 6,000 shares in Macquarie over a period of five years from the date of their appointment. During the year, the Board introduced a minimum shareholding requirement for the Chairman of 12,000 Macquarie shares to be achieved within three years of becoming Chairman.

Each NED's remuneration and current Macquarie shareholding are set out in the Key Management Personnel disclosure in the Remuneration Report and in the notes to the financial statements in the Financial Report.

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

This is the end of the Corporate Governance Statement.

Macquarie Group Foundation Review

Macquarie's approach to philanthropy is to support staff in identifying the needs of their local communities globally. In 2015, as the Foundation celebrates its 30th anniversary, it continues to encourage staff to address these needs through the giving of their time, expertise and financial support. The Foundation is also committed to social innovation, working with its community partners to drive sustainable community benefits over the long term.

In the year ended 31 March 2015, the Foundation celebrated its employee-led focus by establishing an inaugural Foundation Week. Together with the Foundation's financial support, Macquarie employees raised more than $A1 million for hundreds of non-profits during a 9-day community engagement initiative.

This contribution was part of the approximately $A24.2 million(1) provided to 1,300 community organisations by staff and the Foundation globally over the year, together with approximately 33,500 hours of voluntary community service.

Staff recognition

The Foundation recognises staff activity in a number of ways. Its annual Staff in the Community Awards acknowledge outstanding staff volunteering, fundraising and pro bono efforts at an individual, team and office level, with financial support extended to the charities involved.

In addition, Macquarie's staff matching policy provides up to $A25,000 for individual donations or fundraising and up to $A100,000 for team fundraising.

A highlight of Macquarie's staff fundraising in the year ended 31 March 2015 was the Movember campaign, for which Macquarie was one of the top three global corporate fundraisers. Together with Foundation matching, more than $A313,000 was raised by employees for men's health. This means that, since 2009, more than $A3 million has been contributed to Movember by Macquarie staff and the Foundation.

Pro bono expertise

A distinguishing feature of Macquarie's philanthropy is its focus on building the capacity of community organisations through the professional expertise of Macquarie's staff.

During the year, the Foundation, working with Macquarie's Learning and Development team, linked Macquarie director-level employees to non-profit organisations in need of skilled volunteering in Sydney, London, Hong Kong and New York City. The Macquarie Director Program aims to support non-profits in effectively addressing their objectives, while staff have the opportunity to develop leadership and project management skills outside of their day-to-day roles.

Social innovation

Throughout its 30-year history, the Foundation has sought to pioneer new approaches to corporate philanthropy. During FY2015, one of its initiatives in this area – the *Macquarie David Clarke Social Innovation Fellowship* established in Australia in 2012 – was extended to the UK, Hong Kong and New York City.

This Fellowship, valued at $A20,000, encourages CEOs of non-profits to visit and research best practice social innovation around the world. The following CEOs were recognised:

- Jennifer Mitchell, The HOPE Program, New York
- Anita Grover, Auditory Verbal, UK
- Paul Edginton, SYC and Scott Harris, Beacon Foundation, joint winners, Australia
- Alia Eyres, Mother's Choice, Hong Kong.

In addition, Macquarie's $100,000 *Social Innovation Award* recognises, rewards and promotes new ideas that meet pressing community social needs. The winner of the 2014 Award was Perth-based Fogarty EDvance for its school improvement program.

Long term partnerships

The Foundation builds sustained relationships with non-profit partners by extending grants in some cases over three to five years. With many of these partners, there is also a deep level of Macquarie staff engagement. The long term nature of these relationships allows for certainty of funding within these organisations and the ability to leverage support from other funders.

Examples include:

- Asha Foundation (India): Macquarie has supported Asha since 2012 through an internship program in its Gurgaon office for university students from slum communities. The Foundation provided a grant to Asha in 2013 and then a further three-year grant in 2014 to help extend its work across health, education and development initiatives
- BIG (Businesses for Islington Giving) Alliance (UK): the Foundation provided seed funding to the BIG Alliance when it was established in 2012, helping facilitate business volunteering with local charities and schools in the London district
- LEADS (US): since 2008, in conjunction with Columbia University's Double Discovery Center, Macquarie's New York City employees have offered a four month mentoring program – that includes a month-long, paid summer internship at Macquarie – to local high school students who are the first in their families to attend college
- The Song Room (Australia): Macquarie has supported the Song Room since 2004 through a number of multi-year grants for different projects, including online arts education, research and social enterprise development.

The Foundation also notes that in FY2015 the Hayden Reynolds Tiwi College Project, supported by Macquarie since 2010, recorded $A2 million in fundraising for education and training facilities for Tiwi Island youth.

Further information regarding Macquarie staff community initiatives and organisations supported by the Foundation is available at macquarie.com/community.

(1) Comprising Foundation matching support for staff donations and fundraising; Foundation donations to commemorate staff attaining 10-year and 25-year anniversaries at Macquarie; Foundation participation grants to staff who have been on a non-profit board for more than 12 months; and Foundation grants to community organisations.

This is the end of the Macquarie Group Foundation Review.

Diversity Report

As a company which operates globally, the diversity of Macquarie's people is fundamental to its success. Macquarie's ongoing commitment to workforce diversity ensures its business remains innovative, sustainable and continues to meet the evolving needs of its clients.

Macquarie's range of experiences, skills and views are key strengths and critical to the wide range of services the Group delivers across the globe.

Macquarie is committed to:

- attracting a broad range of candidates
- applying fair and robust selection processes
- providing a workplace that is inclusive of all individuals
- providing the relevant structures and work environment to best support its people to reach their full potential in the workplace
- allocating pay and advancement opportunities in a fair and equitable way with a view to both merit and the markets and business environments in which Macquarie operates.

All executives, managers and employees are responsible for promoting workforce diversity and inclusion. Each region is supported by dedicated diversity representatives who, together with the regional diversity committees, implement the organisation's global objectives while responding to business or location specific priorities and circumstances.

Global Diversity Policy

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

Composition of workforce and female representation

The table below outlines the proportion of women employed globally at Macquarie over the last five years.

As at 31 March	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)
Board of Directors	25.0	33.3	30.0	36.4	30.0
Executive Committee	8.3	10.0	18.2	20.0	23.1
Division Head[1]		9.9	11.1	14.4	16.8
Senior Executive[2]	12.5	12.9	13.8	13.6	13.9
Macquarie Workforce	37.3	36.9	36.8	37.0	37.5

(1) Division Head refers to critical roles across Macquarie. It typically includes executives two layers down from the CEO. Note female representation at Division Head was not reported in 2011.

(2) Senior Executive refers to Macquarie's combined Division Director and Executive Director population.

At the end of the year, Macquarie's permanent workforce comprised approximately 44.4 percent located in ANZ, 19.7 percent located in the Americas, 26.5 percent located in Asia and 9.4 percent located in Europe, the Middle East and Africa. Flexible work is accommodated where possible and all part-time and full-time employees have eligibility for the same types of benefits, unless there is a local legal or regulatory requirement to restrict eligibility on that basis.

Diversity Report
continued

Diversity objectives

The *Workforce Diversity Policy* provides that each year the Board will set measurable objectives for achieving gender diversity. For the year ended 31 March 2014, the Board endorsed a revised set of diversity objectives that are meaningful, measurable and broader than gender.

The diversity objectives are set out in the following table.

Diversity objectives

Strategic imperative	Long term outcome sought	Objective

Diverse workforce	Increase the representation of women at Macquarie at all levels.	– increase female representation at senior leadership levels:
		  – Board of Directors
		  – Executive Committee
		  – Division Head
		  – Senior Executive.
		– expand efforts to increase the number of women in the finance industry by promoting finance careers to female secondary school and university students
		– require female representation on all recruitment shortlists and ask 'if not, why not?'
		– improve gender balance on Intern and Graduate programs
		– recruit female lateral hires in proportion to the underlying female candidate pool as a minimum requirement.

Inclusive workplace	Provide an inclusive and flexible workplace, underpinned by policies that support individuals to reach their full potential.	– provide technology and maintain policies to support flexible work arrangements – provide leave benefits and maintain policies to support parental leave – provide parents and carers support prior to, during and upon return from leave – continue to participate in and sponsor networking and development programs focusing on women and other traditionally under-represented groups in areas such as race/ethnicity and disability.
Robust meritocracy	Embed equity and transparency in all people practices and processes including remuneration, promotion, succession, retention, performance and development.	– maintain pay equity for like roles and performance – maintain equality for men and women in promotion decisions – require that participation in development and leadership programs is representative of the underlying workforce demographics – retain women in same proportion as men – maintain high return to work rates for staff on parental leave – maintain high retention of staff returning from parental leave.
Integration and awareness	Further integrate and build awareness of diversity and inclusion objectives into the day-to-day operations of the organisation to become part of the way Macquarie does business.	– embed the principles of diversity and inclusion into all Human Resources related policies, processes and programs to ensure the highest and fair standards in how Macquarie hires, develops, pays and promotes staff – measure and assess diversity statistics in relation to these activities and decisions, holding management accountable for inclusive practices.

Progress FY2015

Macquarie has implemented an extensive range of programs and initiatives to support the achievement of its diversity and inclusion strategy over the past year.

Diverse workforce

Macquarie aims to promote a workforce that is reflective of the diversity within the communities in which it operates. Macquarie's ongoing commitment to achieving gender balance at the leadership levels of the organisation is demonstrated in the strong female representation on the Board and Executive Committee and improving representation at Division Head and Senior Executive levels.

Macquarie's focus continues to be on developing the internal and external female talent pipeline at both junior and senior levels and enhancing its recruitment processes to facilitate this. Consequently the majority of all roles filled globally during FY2015 had at least one female candidate on the shortlist and women were hired in greater proportion than the underlying female application rate. Additionally, female representation on both graduate and intern programs increased globally in FY2015 over FY2014.

Macquarie continues to sponsor female university societies and to actively participate in industry-wide diversity initiatives. Macquarie launched a series of initiatives in secondary schools, hosting events aimed toward high-performing students studying maths, economics or commerce or with an interest in finance to educate students on the breadth of opportunities available within the financial services industry.

Macquarie will continue to be actively involved with industry groups focused on addressing gender balance with an aim to leverage initiatives relevant to the secondary school and tertiary student population.

Inclusive workplace

In recognition of the importance of empowering staff to manage their work and time as effectively as possible, Macquarie provides policies to support flexible work arrangements in all regions. Flexibility is offered in response to a range of reasons including family or carer's responsibilities, pursuit of further studies, recreational reasons such as sporting commitments or community work, phased retirement or a career break.

Where possible, Macquarie offers its staff the opportunity to work flexibly in relation to hours, days and place of work in all regions and may include, for example, flexi-time (having a different or flexible start/finish time), purchased leave, job share and working from home.

Macquarie supports working parents and those with carer's responsibilities through a variety of means. Employee network groups were launched in FY2015 in Australia and Asia to support people with family and carer's responsibilities. In Sydney, Macquarie has well established relationships at two childcare centres which offer childcare services to permanent employees. Macquarie also offers casual places through these centres to respond to the need for flexible childcare arrangements. Other initiatives include 'Care for Kids' (an online portal for working parents providing access to research and resources), backup childcare, backup adult and eldercare, childcare vacancy and emergency childcare search and return-to-work coaching for parents.

Macquarie participated in internship programs designed for Indigenous students and those with a disability by partnering with CareerTrackers and Australian Network on Disability in FY2015. In addition Macquarie partnered with the East London Business Alliance, an organisation focused on placing university graduates from disadvantaged East London backgrounds and communities. Macquarie continues to actively participate in sponsorship, mentoring and networking programs, both internally and externally in all regions, including the Chief Executive Women's Leaders Program, the Women in Banking and Finance Mentoring program and the FTSE 100 Mentoring Program. Additionally the first Macquarie cross-business group mentoring program will be launched in Asia in 2015 providing the opportunity to build a more diverse leadership pipeline for Macquarie in Asia and to enhance collaboration across groups and country boundaries.

Robust meritocracy

Macquarie aims to attract and retain a diverse range of candidates, ensuring meritocracy in hiring, reward and promotion decisions. To achieve this Macquarie embeds equity and transparency in all people-related practices and processes:

- conscious decision-making training is embedded in core talent programs, recruitment processes and remuneration and promotion criteria, complemented by targeted training in specific business groups and regions
- the staff induction program and the Macquarie Director Program both include modules specifically focused on Macquarie's diversity and inclusion objectives
- a review of remuneration outcomes is conducted annually to ensure pay equity for like roles and performance across all groups and regions
- a promotion decision framework analyses and reports on any gender discrepancies in promotion outcomes
- Executive Committee members have diversity-related metrics included in annual performance assessments.

The female participation rate in the core leadership development program, the Macquarie Director Program, is higher than the underlying female representation at director-level and female participation continues to grow at an increasing rate.

Diversity Report
continued

Macquarie has improved its already very high return to work rate and continues to achieve high retention rates globally for those staff who have taken parental leave. Furthermore over the past year there has been no discrepancy between female versus male turnover.

Integration and awareness

Macquarie is committed to an inclusive workplace and ensuring that workforce diversity is an integral part of the way it does business. It continues to invest in promoting and supporting opportunities for staff to engage in initiatives such as business or region-specific 'Diversity Weeks', international days of celebration such as International Women's Day, International Day Against Homophobia and Transphobia and World Aids Day.

FY2015 has seen a targeted expansion of our employee networking groups in all regions to provide staff with opportunities to exchange ideas, build relationships and to support Macquarie's diversity and inclusion strategy. Employee network groups now exist in the areas of Gender Equality, Pride (for Lesbian Gay Bisexual Transgender and Intersex (LGBTI) staff and allies), Families and Carers, Heritage and Culture, Wellness and First Australians.

In particular our Pride network has developed significantly over the past year, implementing gender transition support guidelines for individuals wishing to transition, providing training programs focusing on LGBTI awareness and supporting community partnerships and fundraising activities. These efforts have seen Macquarie improve its ranking in the 2014 Australian Workplace Equality Index, a national benchmark on LGBTI workplace inclusion.

Spotlight on diversity and inclusion training

Macquarie recognises the value that effective training and development can have on an organisation's diversity and inclusion practices and outcomes and offers a range of solutions to employees globally.

LGBTI awareness training is available to all employees in Australia, which emphasises the importance of allowing people to be themselves without fear of repercussions. The training explains why LGBTI inclusion is important to Macquarie and outlines some of the unique challenges faced by LGBTI employees.

Similarly, targeted conscious decision-making training has been implemented to provide key populations with skills to improve the quality of decision-making and recognise how unconscious bias can affect perceptions, judgements and interactions in the workplace.

In recognition that flexibility is a key enabler of workforce diversity, in FY2015 Macquarie implemented training targeted at managing a flexible workforce, providing practical tips and information on how managers and teams can help to support the various arrangements of their colleagues.

A series of career and networking events have also been implemented in Australia to provide employees with the opportunity to hear from senior leaders on their diverse range of experiences across a variety of topics. The topics were selected based on what Macquarie believes will enable a more diverse workforce and inclusive workplace and include, for example, *raising your professional profile*, *sponsorship and mentoring* and *achieving balance*.

This is the end of the Diversity Report.

Risk Management Report

Risk governance at Macquarie

The primary role of the Board is to promote Macquarie's long term health and prosperity. Macquarie's robust risk management framework supports the Board in its role and the oversight of the framework is a top priority for the Board.

The Board monitors significant business risks and reviews how they are managed. It also monitors Macquarie's risk management framework, which includes forming a view of Macquarie's risk culture, and approving Macquarie's RAS and risk management strategy. The Board determines delegations to management, approves relevant risk limits and policies, and reviews business developments for consistency with the risk appetite and strategy of Macquarie.

The BRiC assists the Board by providing oversight of the implementation and operation of Macquarie's risk management framework and constructively probing Senior Management's proposals and decisions on risk management arising from the Group's activities. The BRiC assists the Board with its oversight of Macquarie's risk profile, risk appetite, and risk culture. The BRiC receives information on breaches of the policy framework and external developments that may have some impact on the effectiveness of the risk management framework. The Board is also assisted by the BAC, BRC and BGCC.

The Head of RMG, as Macquarie's CRO, is a member of Macquarie's Executive Committee and reports directly to the CEO. The CRO has a secondary reporting line to the BRiC. The BRiC approves the replacement, appointment, reassignment or dismissal of the CRO and also reviews the performance and remuneration of the CRO.

Committees exist at the executive management level to ensure that the necessary elements of expertise are focused on specific risk areas. The Macquarie and Macquarie Bank Executive Committees focus on strategic issues as well as material transactions. The Group Risk and Compliance Committee (GRCC) is responsible for monitoring the operation of key risk frameworks, internal controls and Macquarie's approach to governance. There are other committees where senior specialists focus on specific risks as appropriate. The Market Risk Committee and the Asset and Liability Committee (ALCO) are examples of these committees.

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

Macquarie's risk management framework

The acceptance of risk is an integral part of Macquarie's businesses. Strong independent prudential management has been a key to Macquarie's success and stability over many years. Where risk is assumed, it is within a calculated and controlled framework that assigns clear risk roles and responsibilities represented by 'three lines of defence'.

The primary responsibility for risk management lies at the business level, which forms the first line of defence. Part of the role of all business managers throughout the Macquarie business units is to ensure risks are managed appropriately. The risk management function forms the second line of defence and independently assesses all material risks. The third line, which includes internal audit, independently reviews and challenges the group's risk management controls, processes and systems.

Macquarie's core risk management principles have remained stable and continue to be highly effective. These are:

- **ownership of risk at the business level**: Operating Group Heads are responsible for identifying risks within their businesses and ensuring that they are managed appropriately. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with Macquarie's risk appetite and strategy. Business ownership of risk is an essential element in understanding and controlling risk
- **understanding worst-case outcomes**: Macquarie's risk management approach is based on examining the consequences of worst case outcomes and determining whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, Macquarie's market risk framework is based primarily on the application of stress tests, rather than statistical models. The effectiveness of this approach was demonstrated over the recent past. Shocks observed in the markets generally remained within Macquarie's stress scenarios, resulting in very few of our worst case loss scenarios being exceeded. While 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 sign off by risk management**: Macquarie places significant importance on having a strong independent RMG that 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.

Risk Management Report
continued

Macquarie's risk culture is well established

Macquarie recognises that a sound risk culture is a fundamental requirement of an effective risk management framework. The long-held foundations of Macquarie's risk culture are the principles of *What We Stand For* – Opportunity, Accountability and Integrity. These principles are expected to form the basis of all day-to-day behaviours and actions.

Macquarie drives behaviours in keeping with these principles through extensive and purpose-designed management frameworks and controls including policies, standards and processes. Senior management measure and monitor risk culture indicators and constantly seek opportunities for improvement. Senior management learn from the past and from industry and use that knowledge to further strengthen Macquarie's risk culture. Macquarie has robust remuneration and consequence management policies which further support adherence to the expected behaviours.

Key aspects supporting Macquarie's risk culture include:

- **the *Code* which has been approved by the Board, incorporates *What We Stand For*.** It focuses on the accountability of every staff member in managing the risks associated with their respective roles and the consequences of their actions. It encourages staff to speak up, escalate concerns and report mistakes, provides an overview of the important policies with which all staff are expected to be familiar and outlines key supervisory principles
- **Macquarie's businesses are fundamentally client based**. Therefore, greater emphasis is placed across Macquarie on fostering long term relationships with our clients and building franchise businesses as opposed to short term profits from proprietary trading
- **consideration of worst-case scenarios is part of everyday risk controls rather than supplementary to them**. Even though the worst-case scenarios are often in excess of what has been historically observed, they play a major role in influencing and limiting positions particularly for extreme loss events. For example, Macquarie applies limits to contingent losses from an instantaneous 40 percent gap move in stock prices. This effectively constrains trading divisions from issuing well out of the money options and encourages hedging of extreme loss events. Macquarie has over 14,000 contingent loss limits that consider a variety of worst case scenarios
- **the role of risk management staff is one of active engagement in risk-taking decisions**. In accordance with the principle of risk ownership, the primary risk analysis and initial decisions to reject or accept a transaction are taken by Operating Groups. In its review of a new proposal, RMG provides an independent confirmation of the risk acceptance decision. RMG works closely with the deal team and shares the goal of making the transaction successful by requiring improvements to the transaction terms where applicable. Strong emphasis is placed on transferring knowledge to transaction teams so that the same risk management principles are applied to future proposals from an early stage
- **Macquarie's remuneration policy for senior management encourages a long term view in decision making**. It discourages excessive risk taking as incentives are aligned with the long term profitability of the firm through retention of remuneration and equity participation. The principles behind Macquarie's current remuneration structure have been in place for many years.

Macquarie's risk culture supports its ability to operate within the Board-approved RAS. The behaviour expectations that are overseen by the Board and executed by management such as individual accountability, 'compliance is not optional' and the fair treatment of clients are consistent with the principles in the RAS. In addition these behavioural expectations encourage staff to comply with the processes, limits and policies that put the principles of the RAS into operation.

Risk appetite setting

The Board reviews and endorses Macquarie's risk appetite as part of the annual corporate strategy review process. Risk appetite is the nature and amount of risk that the Group is willing to accept. At Macquarie this is outlined in the Board-approved RAS.

The RAS sets out the degree of risk Macquarie is willing to take overall and for each material risk type. It also conveys the process for ensuring that risk limits (tolerances) are set at an appropriate level, monitored and reviewed.

The statement is put into operation via the following key methods: New Product and Business Approval process, aggregate and specific risk limits, relevant policies, and communication and training. These are discussed further below.

New product and business approval process

All new businesses and significant changes to existing products or processes are subject to a rigorous approval process. Approval requires confirming that the proposal is consistent with the principles stated in the RAS. The process is interactive and results in constructive dialogue on risk matters.

This formal process is designed so that the proposed transaction or operation can be managed properly and does not create unknown or unwanted risks for Macquarie in the future. All relevant risks (for example, market, credit, equity, legal, compliance, taxation, accounting, operational and systems) are reviewed to ensure that they are identified and addressed prior to implementation (including ongoing risk monitoring processes). The approvals of RMG, Finance Division, Taxation Division, LGL and other relevant stakeholders within Macquarie are obtained. RMG also checks that all necessary internal approvals are obtained prior to commencement.

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

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

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

Limits

In many cases limits translate risk appetite principles into hard constraints on individual businesses.

These consist of specific risk limits given to various businesses and products or industry sectors as well as the Global Risk Limit that constrains Macquarie's aggregate level of risk.

Macquarie sets the Global Risk Limit with reference to earnings and not just capital. The limit is set in such a way that in a prolonged and severe downturn, losses would be covered by earnings and surplus capital, and market confidence in Macquarie is maintained.

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

These granular limits are set to allow businesses to achieve their near-term plans and promote a reassessment of the opportunity and associated risks as the limit is approached.

Relevant policies

Policies expand on the principles found in the RAS and often translate them into what must be done operationally by an individual or business.

Policies are communicated regularly to key staff. Director-level staff attend mandatory risk management framework and policy training on a regular basis. Training programs for specific policies are also in place.

Communication and training

The RAS is available for all staff to access and is referred to in the Code which is a document that must be read by all staff.

In addition, the principles in the RAS are communicated to relevant staff by other formal and informal training programs.

Requirement to consider risk-adjusted returns

The RAS states that Macquarie pursues an appropriate and resilient long term return on its capital and that transactions must generate returns in proportion to the risks. In line with this, proposals for all significant new deals, products and businesses must contain an analysis of risk-adjusted returns.

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

Existing businesses are subject to regular risk-return monitoring and reporting. Risk-adjusted performance metrics for each division are a significant input into performance based remuneration.

Risk Management Group

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

Independence

RMG, which is responsible for assessing and monitoring risks across Macquarie, is independent of Macquarie's operating groups, and the Head of RMG, as Macquarie's CRO, reports directly to the CEO with a secondary reporting line to the BRiC. RMG approval is required for all material risk acceptance decisions.

Centralised prudential management

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

Approval of all new business activities

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

Continuous assessment

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

Frequent monitoring

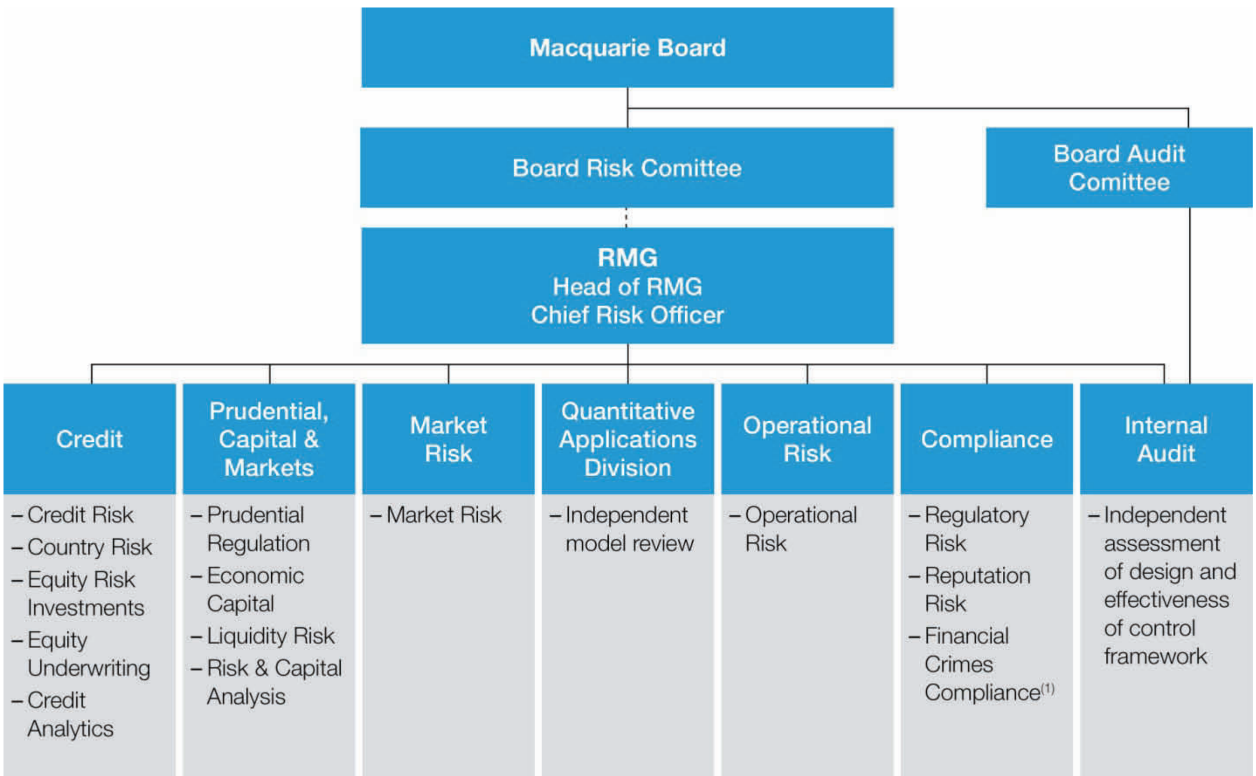
Centralised systems exist to allow RMG to monitor credit and market risks daily. RMG staff liaise closely with operating and support divisions.

Risk Management Report
continued

RMG structure and resourcing

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

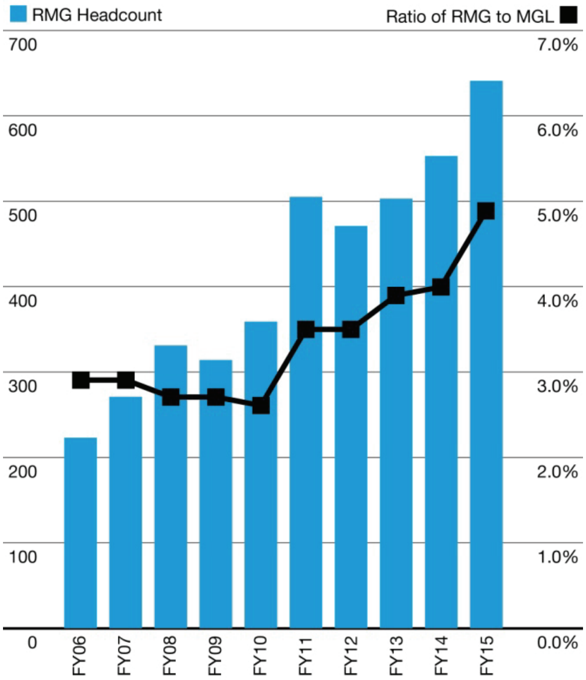
While RMG is structured into specialist teams as detailed below, we employ an integrated approach to risk analysis and management across risk classes. RMG's assessment and monitoring of risks involves a collaborative effort across the teams to ensure that a detailed analysis takes place both at the individual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



(1) Financial Crimes Compliance includes anti-money laundering, anti-bribery and corruption and sanctions.

RMG staff numbers as at 31 March 2015 were 641, which is a 16 percent increase over the year. This was largely driven by additional resources required in RMG Compliance in response to the developing regulatory environment.

Ratio of RMG headcount to total Macquarie(1)



(1) Headcount numbers only include permanent, active staff (full-time and part-time). Figures prior to FY2011 have not been restated to account for business compliance staff who joined RMG in FY2011 and FY2013.

To ensure that risks are managed in a controlled manner, about half of total RMG staff as at 31 March 2015 were based outside of Australia. All offices are subject to the same risk management controls and standards. This is supported by regular staff communication and visits to international offices.

Consistent with the concept of Operating Groups owning risk, specific day-to-day operations are more appropriately discharged and embedded within the Operating Groups. This applies particularly to the management of compliance and operational risk. The majority of these functions are discharged within the Operating Groups as follows:

- a significant number of RMG Compliance staff are co-located with the business and ensure that day-to-day compliance obligations are discharged at the business level. These staff report into their Regional Head of Compliance and ultimately into the Head of RMG Compliance
- Business Operational Risk Managers (BORMs) are appointed by the Operating Group Heads to be their representative on operational risk management matters, and act as their delegate in ensuring that operational risk and standards are addressed appropriately within their division.

Risk management and monitoring

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

Credit risk

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

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

Analysis and approval of exposures

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

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

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

All wholesale credit exposures are reviewed at least once a year, or more frequently if required. Retail credit exposures are monitored on a portfolio basis.

Independent analysis

RMG Credit works closely with the Operating Groups to identify the risks inherent in Macquarie’s businesses, and provide independent analysis commensurate to the level and nature of risks.

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

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

Risk Management Report
continued

Macquarie Group ratings

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

Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

All wholesale exposures are allocated a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Credit Assurance, located within RMG Credit provide independent assurance of the effectiveness of credit processes and controls.

Measuring and monitoring exposures

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

Credit exposures for derivatives are a function of potential market movements. Portfolio credit exposure is determined using a high-confidence-level portfolio revaluation on the assumption of Macquarie having to go to the market to replace defaulting deals at the worst possible time during the active life of the portfolio. The RMG Credit Analytics team proposes and regularly reviews the market risk factor evolution models that are used in generating the possible market moves. The models are back-tested to ensure that they would have provided the required confidence level over a representative historical period. Evolution model and portfolio credit exposure reviews are conducted using a combination of fundamental and technical analysis and adjustments are made for market liquidity, risks associated with physical delivery and other significant risks.

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

All credit exposures are regularly monitored against limits. 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.

A review of the credit portfolio that involves monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out and reported to the GRCC quarterly and Board semi-annually. Policies are in place to manage credit risk and avoid unacceptable concentrations to any counterparty or country.

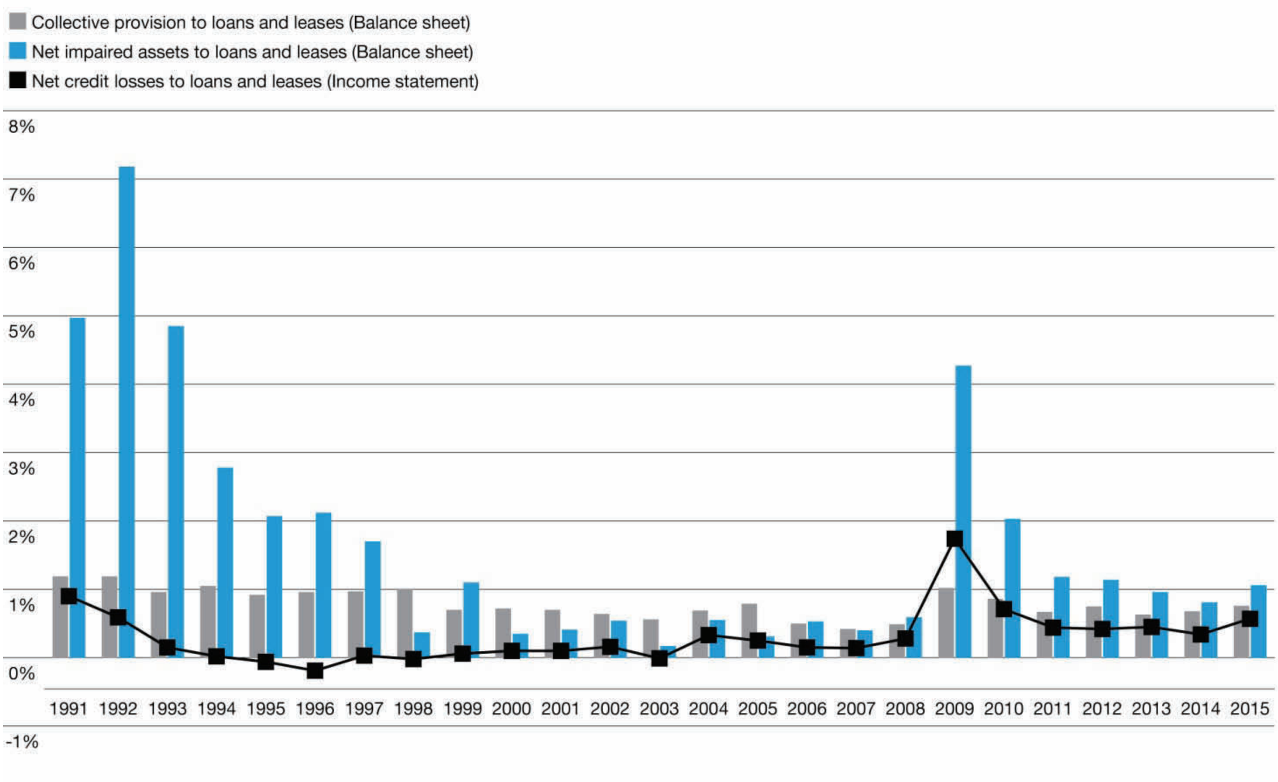
Loan impairment review

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

Specific provisions are recognised where specific impairment is identified. Facilities for which no individually assessed provision is required are assessed collectively for impairment and are representative of losses that have been incurred but not yet identified.

Impaired assets have increased over the past year. This has been driven in part by foreign currency movements.

Ratio of provisions and impaired assets to loans and leases



Notes:

- Loan assets exclude securitised mortgages, securitised Macquarie Capital loans/leases, segregated future funds and receivables in the form of fees
- Net impaired assets and net losses exclude investment securities
- Collective provision (as per Note 11 of the Financial Report) is intended to cover losses inherent in the existing overall credit portfolio that are not yet specifically identifiable
- Net credit losses represent total profit and loss impact in the stated period due to additional individually assessed provisions and direct write-offs net of any write-backs
- Please refer to Note 12 of the Financial Report for further information on impaired assets.

Country risk

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

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

Risk Management Report
continued

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
- **commodities and energy**: changes in the price and volatility of base metals, agricultural commodities and energy products.

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

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

Trading market risk

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

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

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

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

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

Aggregate measures of market risk

Aggregate market risk is constrained by two risk measures, VaR and the Macro-Economic-Linkages (MEL) stress scenarios. The VaR model predicts the maximum likely loss in Macquarie's trading portfolio due to adverse movements in global markets over holding periods of one and 10 days. The MEL scenario utilises the contingent loss approach to capture simultaneous, worst case movements across all major markets. Whereas MEL focuses on extreme price movements, VaR focuses on unexceptional changes in price so that it does not account for losses that could occur beyond the 99 percent 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 either equity or energy markets as well as cross-market effects in corporate margins, metals, foreign exchange, interest rates and commodities. MEL is Macquarie's preferred internal measure of aggregate market risk because of the severity of the shocks applied and the ability for scenarios to develop with changing market dynamics. MEL is monitored and reported to senior management daily and to the Board regularly. It is reviewed by RMG regularly 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 prevailed throughout the Global Financial Crisis. The 'Market Contagion' scenario measures the impact of an instantaneous equity market crash of 20 to 40 percent 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 increased compared with last year as trading businesses managed exposures while looking to take advantage of increased trading activity. The average exposure to the MEL stress test scenario represents less than six percent of total equity.

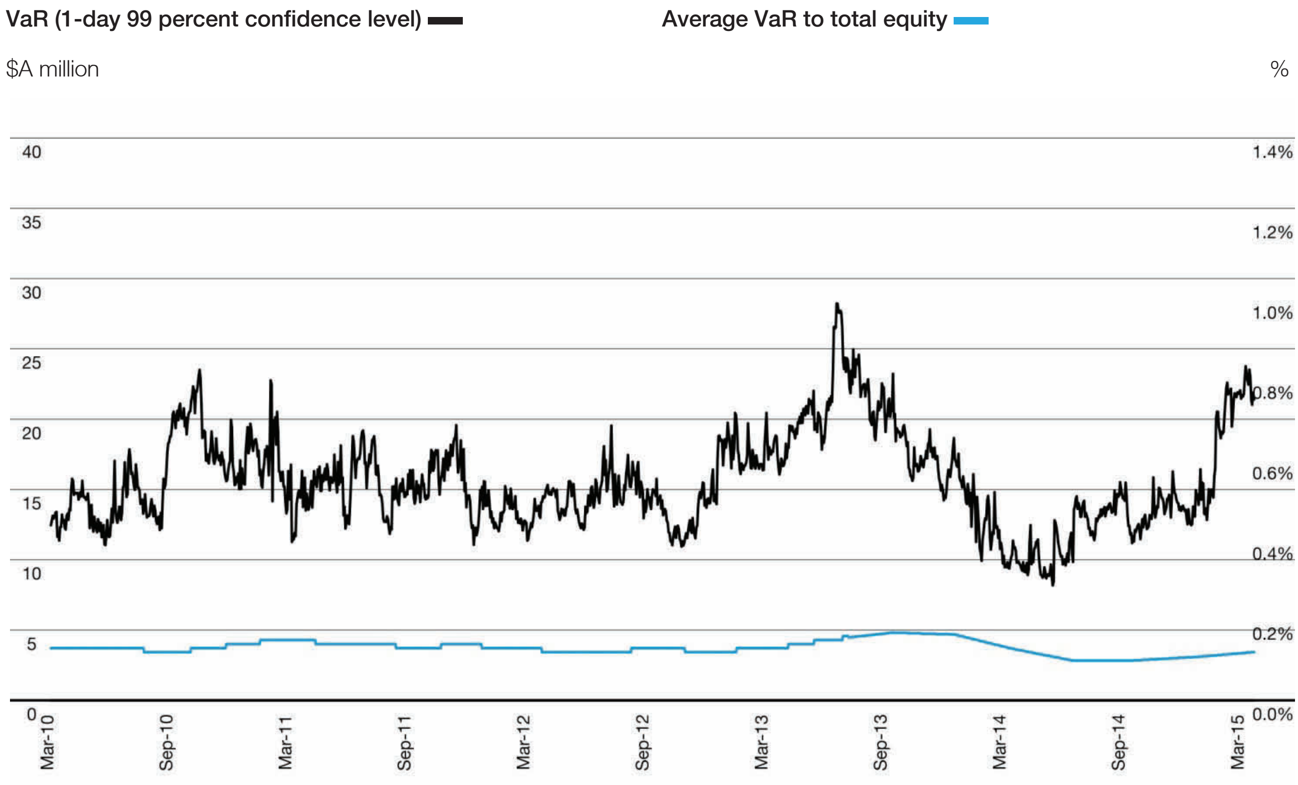
Value-at-Risk

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

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 3,200 benchmarks, using volatilities and correlations based on three years of historical data. Emphasis is placed on more recent market movements to more accurately reflect current conditions. Each benchmark represents an asset at a specific maturity, for example one year crude oil futures or spot gold. The benchmarks provide a high level of granularity in assessing risk, covering a range of points on yield curves and forward price curves, and distinguishing between similar but distinct assets; for example crude oil as opposed to heating oil, or gas traded in different locations. Exposures to individual equities within a national market are captured by specific risk modelling incorporated directly into the VaR model.

Macquarie's market risk, as measured by VaR, increased over the first half of the year from larger commodity exposures, and peaked at the end of the year due to higher exposures to equities and interest rates. VaR remains modest in comparison to capital and earnings and continues to represent less than 0.2 percent of total equity. The graph below shows the daily VaR and the six month average VaR as a percentage of total equity.

Aggregate VaR



Risk Management Report
continued

VaR figures for year ended 31 March 2015 (1-day, 99 percent confidence level)

	2015 Average $Am	**2015 Maximum $Am**	**2015 Minimum $Am**	2014 Average $Am	2014 Maximum $Am	2014 Minimum $Am
Equities	6.51	13.43	3.35	5.55	8.21	2.98
Interest rates	8.86	14.49	6.08	10.37	15.56	6.17
Foreign exchange and bullion	2.64	4.44	0.58	3.97	8.05	1.05
Commodities and energy	9.75	13.75	6.80	13.08	20.89	7.36
Aggregate	13.96	23.76	8.18	18.09	28.23	9.38

Trading revenue

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

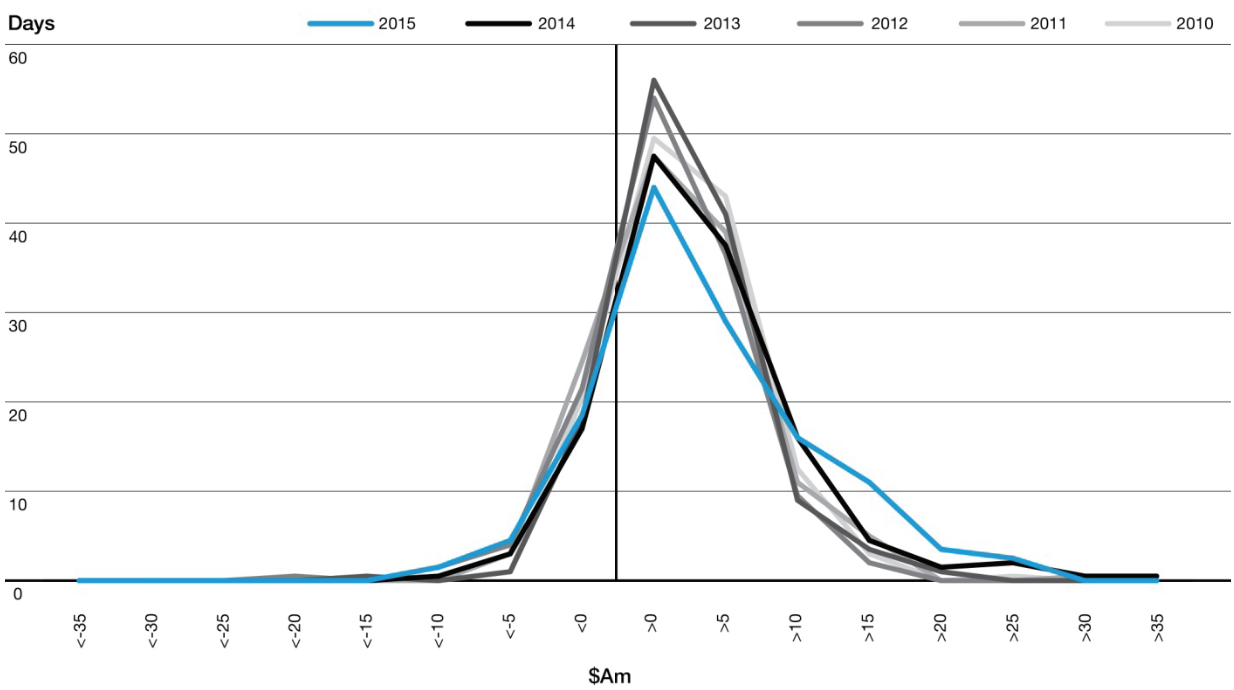
Macquarie's market risk activities continue to be based on earning income from spreads, franchise businesses and client flows. The majority of trading income is derived from client franchise activities rather than outright proprietary trading activity.

Macquarie's trading approach has shown consistent profits and low volatility in trading results over time. This is evident in the graph below, and reflects the client-based nature of trading activities. In FY2015 Macquarie made a net trading profit on 212 out of 261 trading days (2014 results: 220 out of 261 trading days).

Non-traded market risk

Macquarie also has exposure to non-traded interest rate risk, generated by banking products such as loans and deposits. Interest rate exposures, where possible, are transferred into the trading books of CFM and the Group Treasury division 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 monitored and controlled by RMG and regularly reported to Senior Management.

Daily Trading Profit and Loss



Equity risk

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

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

Equity Risk Limit

All of the above equity risk positions are subject to an aggregate Equity Risk Limit (ERL). The ERL is set by the Board with reference to the Risk Appetite Test that 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 GRCC 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 MacCap.

Transaction review and approval process

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

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

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

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 is 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 all operational risks and that resources are available to support it. RMG is also responsible for Macquarie's operational risk capital measurement methodology.

The technology environment presents a key risk area for all firms in the financial services sector including Macquarie. The risk involves a potential compromise or loss of data, and the potential loss of access to systems for employees and customers. There has been an increase in attacks globally on financial services firms from the internet, otherwise known as cyber attacks. Macquarie continues to develop frameworks, policies and procedures to ensure there is appropriate protection in place, that monitoring is conducted to identify attacks, and that reaction and recovery procedures exist to manage an incident caused by a cyber attack.

Operational Risk Management framework

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

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

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

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

Risk Management Report
continued

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 that 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, if they occurred, result in very high impact losses. In identifying the potential for such losses consideration is given to the individual statistical distribution for each scenario, external loss data, internal loss data, risk and control factors determined by the operational risk self assessments, and the contribution of expert opinion from businesses. Scenario estimates are then modelled to determine the operational risk component of regulatory capital required to be held by Macquarie at the 99.9^{th} percentile. The model reflects recent changes in operational risk capital regulatory requirements.

Over time changes in operational risk capital reflect:

- new or significantly changed business activity or business growth
- reduced risk arising from business stability and control environment maturity
- changes in the external environment such as new regulations or movements in the economic cycle.

Macquarie allocates capital to individual businesses. The capital allocation effectively rewards positive risk behaviour and penalises increased risks. This is done using scorecards that 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.

Assessment of aggregate risk

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

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

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

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

Capital adequacy assessment

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

	Economic	Regulatory
Macquarie Bank	Internal model, covering exposures of the Banking Group	Capital to cover risk-weighted assets and regulatory deductions, according to the APRA 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 with the capital resources available to absorb loss, consisting of book equity and eligible hybrid equity. Earnings are also available to absorb losses, however only a fraction of potential earnings are recognised as a buffer against losses.

The ECAM quantifies the following types of risk:

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

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

The regulatory capital requirement of Macquarie's non-banking entities as agreed with APRA is determined by the ECAM. Macquarie is well capitalised – a substantial regulatory capital surplus exists. An element of this surplus is set aside as a buffer against volatility in the drivers of capital adequacy. The remaining capital surplus is available to support growth and provide strategic flexibility.

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

The Common Equity Tier 1, Tier 1 and total capital ratios[1] for the Banking Group as at 31 March 2015 were 9.7 percent, 11.0 percent and 12.4 percent 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.

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 that considers losses and earnings under a severe economic downturn scenario with the aim of Macquarie emerging from that scenario with sufficient capital to operate.

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

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

Aggregate risk can be 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 forward earnings estimates. Potential losses are quantified using a version of the economic capital model.
A principal use of the Risk Appetite Test is in setting the ERL. This limit constrains Macquarie's aggregate level of risk arising from principal equity positions, managed fund holdings, property equity investments, lease residuals and other equity investments. Any changes to the ERL are sized to ensure that even under full utilisation of this limit, and allowing for growth in other risk types, the requirements of the Risk Appetite Test will be met.

[1] Under APRA Basel III rules.

Liquidity risk

Liquidity management

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

The high level funding structure within Macquarie is shown on the following page.

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

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

ALCO includes the CEO, MBL CEO, CFO, CRO and Business Group Heads.

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

Liquidity policy 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. MGL's risk appetite is set so that MGL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12-month period with no access to funding markets and with only a limited impact on franchise businesses.

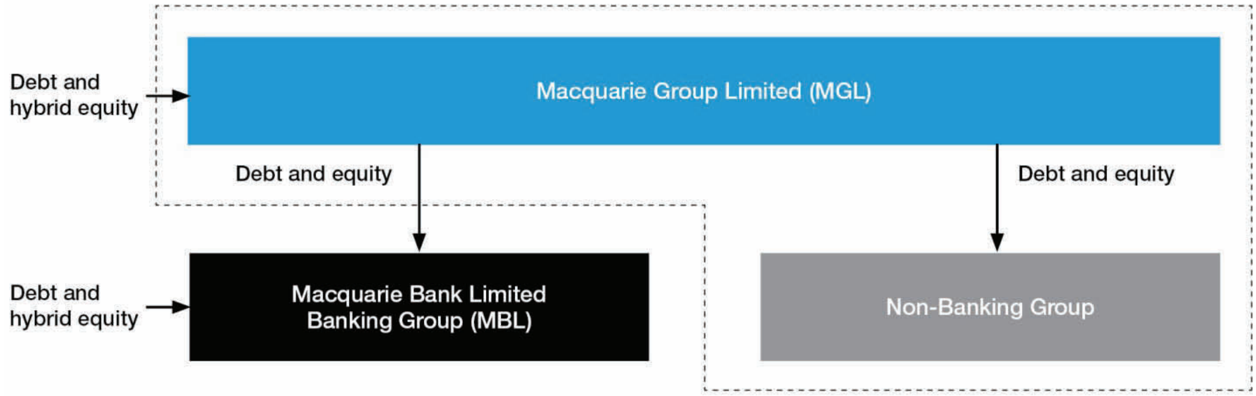
Reflecting the longer-term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long term wholesale funding.

The *MBL Liquidity Policy* outlines the liquidity requirements for the Banking Group. MBL's risk appetite is set so that MBL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited impact on franchise businesses.

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

Risk Management Report
continued

Macquarie Group – high-level funding structure



The liquidity risk appetite is supported by a number of risk tolerances and management principles applied to oversee liquidity risk in both MGL and MBL.

Risk Tolerances

- term assets must be funded by term liabilities and short term assets must exceed short term wholesale liabilities
- cash and liquid assets must be sufficient to cover a 12 month stress scenario and meet minimum regulatory requirements
- cash and liquid assets held to meet stress scenarios and regulatory minimums must be high quality unencumbered liquid assets and cash
- diversity and stability of funding sources is a key priority
- balance sheet currency mismatches are managed within set tolerances
- funding and liquidity exposures between Macquarie Group entities are subject to constraints where required.

Liquidity Management Principles

- Macquarie has a centralised approach to liquidity management
- liquidity risk is managed through stress scenario analysis and setting limits on the composition and maturity of assets and liabilities
- a Regional Liquidity Framework is maintained that outlines Macquarie's approach to managing funding and liquidity requirements in offshore subsidiaries and branches
- the liquidity position is managed to ensure all obligations can be met as required on an intraday basis
- a Liquidity Contingency Plan is maintained that provides an action plan in the event of a liquidity crisis
- a funding strategy is prepared annually and monitored on a regular basis
- internal pricing allocates liquidity costs, benefits and risks to areas responsible for generating them
- strong relationships are maintained to assist with managing confidence and liquidity
- the MBL and MGL Boards and Senior Management receive regular reporting on Macquarie's liquidity position, including compliance with liquidity policy and regulatory requirements.

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 and Group-specific crises. The objective of this modelling is to ensure the ability of MGL and MBL to meet all repayment obligations under each scenario and determine the capacity for asset growth.

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

Liquid asset holdings

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

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 wholesale and retail market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and minimum regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High Quality Liquid Assets or be an asset type that is eligible as collateral in the Reserve Bank of Australia's Committed Liquidity Facility.

The cash and 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 securities.

The liquid asset portfolio is denominated and held in both Australian dollars and a range of other currencies to ensure Macquarie's liquidity requirements are broadly matched by currency.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire 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 communications strategy, a high-level check list of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG and is submitted to the Board for approval.

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

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for the group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

Regulatory and compliance risk

RMG Compliance is an independent function responsible for ensuring that all Compliance Risks are appropriately assessed and managed across Macquarie.

In line with the core risk management principle of risk ownership, business heads are responsible for identifying risks within their businesses and ensuring that they are managed appropriately. RMG Compliance enables business management to fulfil these supervisory responsibilities by establishing a robust and effective compliance framework, and by performing an advisory, training and monitoring role in respect of the compliance risks arising from Macquarie's business activities.

RMG Compliance communicates and delivers on its priorities by defining and implementing a risk-based compliance program that sets out planned activities, such as the implementation and review of specific policies and procedures, compliance testing and staff training. The compliance program is overseen by the Head of RMG Compliance to ensure appropriate coverage across businesses and co-ordination among other risk management functions.

The Head of RMG Compliance reports directly to the CRO, has free access to the BGCC at any time and meets privately with the BGCC.

RMG Compliance is closely supported by RMG Prudential, Capital and Markets Division to ensure compliance with prudential standards and consistency of Macquarie's approach to prudential regulation globally.

Legal risk

Legal risk is the risk of loss arising from a breach of contract, law or regulation, the risk of litigation or regulatory enforcement or the risk that a contract is not capable of being enforced as expected.

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

Risk Management Report
continued

Reputation risk

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

Macquarie operates under a strong corporate governance structure consistent with the regulatory requirements of various regulators including the Australian Securities and Investments Commission (ASIC), the ASX and APRA. The Code outlines a clear code of ethics which is communicated to all staff, Regional Integrity Officers deal with potential issues of integrity.

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

The various policies, procedures and practices in place aim to minimise reputation risk. Regular reporting to the GRCC 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) as well as legal costs are taken into account in the operational risk capital model.

Tax risk

Tax risk is defined as the risk of loss arising from the misinterpretation of tax regimes and the manner in which they may be applied and enforced. The management of tax risk is undertaken by the Taxation Division, a specialist division within FMG. This division is independent of the business units and takes an integrated view of tax risk for the whole Group.

The Taxation Division provides taxation support to all areas of Macquarie and manages the Group's relationships with revenue authorities globally. It assists in achieving compliance with Macquarie's global taxation obligations by providing technical assistance and input in relation to tax returns and other filing obligations. To confirm appropriate coverage, individual tax specialists within the Taxation Division are assigned primary responsibility for key divisions, technical issues and regions. The Taxation Division oversees and monitors the tax risks of all entities within the Macquarie Group by reviewing and approving Macquarie's new and existing businesses and structures, and confirming that Macquarie holds appropriate external taxation opinions and support. In addition, the Taxation Division monitors relevant taxation risks of appropriate connected entities.

Material tax issues and risks are regularly considered with the CFO and escalated to MGL and MBL Executive Committee as well as the BAC as appropriate.

Insurance risk

Macquarie Life Limited (MLL), a subsidiary of MBL, underwrites life insurance policies that provide death, trauma, total and permanent disability and income protection benefits to policyholders. A large portion of this risk is passed on to reinsurers. However, Macquarie retains a portion of the risk and is therefore exposed to potential losses arising from higher than expected policy lapse rates, claim rates and expenses.

To ensure that the potential losses arising from the insurance business remains within MBL's risk appetite, the MBL Board has established an insurance risk limit framework. RMG monitors MLL's insurance risks against the limits established by MBL, and provides regular reports to the MBL Board in relation to those limits.

Internal Audit

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

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

Basel III

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

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

(1) Standard approach applied for specific risk on debt securities.

This is the end of the Risk Management Report.

Environmental, Social and Governance Report

Macquarie's Board and Management view the commitment to ESG performance as part of their broader responsibility to clients, shareholders and the communities in which Macquarie operates. This report provides an overview of Macquarie's ESG approach, progress and performance.

Macquarie's ESG approach is structured around priorities considered to be material to the business. Underpinned by Macquarie's *What We Stand For* and the Code, these ESG priorities were confimed through an external review completed in FY2015. The priorities reflect the risks and opportunities identified by the business and the issues of interest to Macquarie's stakeholders including:

- managing ESG risks in business activities
- advancing environmental management
- pursuing investments, markets and products with an ESG focus
- valuing Macquarie's people and workplace.

To gain a complete view of Macquarie's ESG approach, these pages should be read in conjunction with other sections of this Annual Report.

In the year ended 31 March 2015, Macquarie continued to embed ESG within its diverse activities and drive new business opportunities. Highlights include:

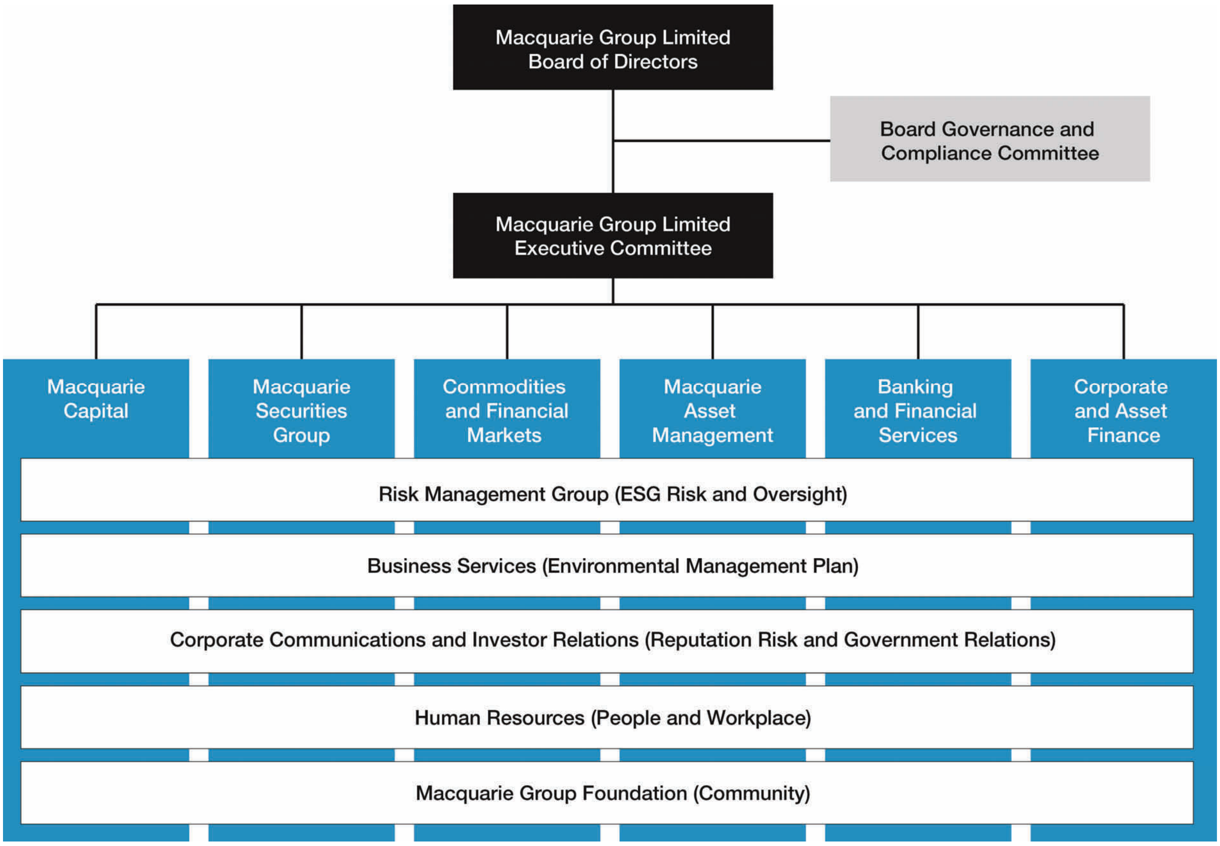
- enhancing the Group-wide approach to environmental and social risk in decision-making with the Board approval of the *Environmental and Social Risk (ESR) Policy*, which builds on existing ESG related policies and procedures
- reducing Scope 2 emissions by one percent in corporate offices and data centres compared with FY2014 and 16 percent compared with baseline
- reducing Scope 3 emissions by 14 percent compared with FY2014, equivalent to a reduction of five percent in actual flight miles
- achievement of 6 Star Green Star Design and As Built rating from the Green Building Council of Australia for Macquarie's new head office at 50 Martin Place, Sydney
- maintaining carbon neutrality across energy use in premises and corporate air travel
- continuing to foster sustainability by investing in and providing advice on renewable energy, energy efficiency and clean technology
- contributing to public policy reviews
- ongoing investment in staff training and development.

ESG governance

The Board approves Macquarie's ESG framework including major ESG policies. The BGCC assists the Board in adopting appropriate governance standards and reviewing the operation of environmental and social risk management policies and work health and safety practices. Responsibility for implementation of the ESG framework and related Board approved policies resides with Management.

Macquarie's Sustainability and Environment Office has transferred into RMG, further embedding environmental and social risk into Macquarie's risk management framework. The renamed Environmental and Social Risk (ESR) team continues to coordinate a diverse range of ESG activities, including developing and implementing Group-wide and businesses specific policies, providing advice on ESG risks and opportunities and facilitating training. The ESR team regularly reports to the BGCC on ESG related matters.

Environmental, Social and Governance Report
continued



ESG risk management

Group-wide ESG risk management

Macquarie views management of material ESG risks as a component of broader risk management and recognises that failure to manage these risks could expose Macquarie to commercial, reputational and regulatory impacts.

ESG risks are managed through a well established framework of ESG-related policies and practices including:

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

All staff share responsibility for identifying and managing ESG issues as part of normal business practice. Staff are supported by RMG, as well as through access to the ESR team and specialist ESG research and training.

Managing environmental and social risk in transactions

Macquarie understands the importance of embedding environmental and social risk management into investment decision-making. In the year ended 31 March 2015, the Board approved a Group-wide *ESR Policy* which builds on existing policies and procedures.

The *ESR Policy* was developed with reference to international guidelines including the International Finance Corporation Performance Standards. It provides a robust approach to assess, categorise, manage, mitigate, monitor and report environment and social risks in client on-boarding and across a broad range of transactions including financing, lending, leasing and advisory. The *ESR Policy* guides the management of environmental and social issues including labour and employment practices, human rights, resource efficiency, pollution prevention, biodiversity and cultural heritage.

The *ESR Policy* establishes escalated decision-making and approval processes for material environmental and social risks. Transactions may be reviewed by the CRO, Executive Committee or Macquarie Board.

Managing WHSE risk in operating assets

For operating assets in which Macquarie has an interest, effective work health, safety and environmental (WHSE) management is a key business priority because of the significant legal, ethical, reputational and commercial risks associated with poor WHSE performance. This is demonstrated through the implementation of relevant Group-wide policies; and WHSE performance reporting to, and oversight by, the BGCC. Macquarie deems WHSE legal compliance and continuous improvement in management frameworks as a minimum requirement for all controlled assets and continues to encourage and facilitate WHSE management improvements in non-controlled assets.

Macquarie's commitment to ongoing WHSE performance improvement is outlined in the *WHS*, and *Environmental Risk Policies*, both of which establish comprehensive frameworks for management and oversight of WHSE risks and obligations across Macquarie's businesses. The policies are supported by WHS and environmental management systems, which are based on international standards(1). In addition to the management systems, the frameworks require completion of stringent WHSE due diligence by independent specialist advisers prior to investment, in order to reduce the likelihood of poor performance at individual assets, and to facilitate effective WHSE management post investment. These requirements enable early identification and attention to performance improvements for newly acquired assets and continuous improvement for existing assets.

(1) *Occupational health and safety assessment series (OHSAS). Occupational health and safety management systems – Requirements 18001:2007* and *Environmental management systems – Requirements with guidance for use Australia/ New Zealand (AS/NZ) International Organisation for Standardization (ISO) 14001:2004.*

Regular compliance, management framework status and performance data reporting is required for all controlled assets and where relevant, for non-controlled assets. Business specific policies further support and ensure WHSE issues are addressed in a timely manner relevant to the risk profile and nature of the asset. Where appropriate, assets or businesses pursue international certifications, such as ISO14001 or OHSAS 18001, employ independent impact assessments and develop compliance plans as relevant to their operations.

Preventing money laundering, terrorist financing and corruption

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

Macquarie maintains a risk management framework that is designed to minimise the risk of its products and systems being used to facilitate the crimes of money laundering and terrorist financing. The framework also supports Macquarie's anti-corruption and anti-bribery initiatives to achieve a high level of integrity in all business dealings.

The framework includes policies and procedures, training, governance standards, escalation protocols and assurance activities and ensures that Macquarie:

– meets its obligations to the jurisdictions in which it operates
– contributes to the stability, integrity and strength of the global financial system
– maintains principles that guide the way Macquarie identifies, mitigates and manages the risk of money laundering, terrorist financing and corruption.

All Macquarie employees are required to undertake training to understand their obligations under the relevant laws and regulations governing anti-corruption, anti-bribery and anti-money laundering. Risk assessments are undertaken periodically across all businesses to identify business activities which are more susceptible to abuse, with additional training and oversight efforts directed accordingly.

Regulatory requirements and expectations continue to evolve in the areas of anti-money laundering, counter-terrorist financing and anti-corruption. Macquarie is committed to meeting new regulatory requirements.

A more detailed overview of these policies and procedures is available on the Macquarie website.

Addressing privacy

Macquarie respects and protects the privacy of the personal information of individuals with whom it deals. Macquarie uses security procedures and technology to protect the information held. Access to and use of personal information within Macquarie seeks to prevent misuse or unlawful disclosure of the information.

Macquarie has appointed a General Counsel – Privacy and Data. This is a dedicated Group-wide role focused on data protection and privacy.

Macquarie's *Privacy Policy* is available on the Macquarie website.

Environmental, Social and Governance Report
continued

Responsible marketing

Macquarie is committed to ensuring that its products are marketed appropriately and that clients are treated fairly. There are Group-wide policies that require disclosure and marketing materials meet legal and regulatory expectations, are appropriate for the target audience and accurately and fairly describe the product. Macquarie has also implemented policies and procedures to ensure that consumer complaints are handled in an appropriate and time-efficient manner and that agreements do not contain provisions which may be considered abusive or unfair. Further information on Macquarie's approach can be found in the Code.

Political contributions and engagement

Macquarie supports strong and vibrant democracies and believes it is critical to understand the regulatory and political environments in the jurisdictions in which it has a presence and does business. Over the financial year Macquarie made submissions, both verbally and in writing, on a range of policy related topics. These submissions were made to various Parliamentary Committees, government review bodies established to conduct public inquiries, elected officials, regulatory officers and public officials.

Macquarie has a longstanding and consistent policy in regard to political contributions provided to Australia's main political parties. Any requests for financial assistance are assessed with the aim of ensuring that multi-party systems deliver both good government and good opposition. In Australia, Macquarie achieves this objective by providing financial assistance to major political parties at the state and federal level.

Macquarie has a full disclosure policy and declares all political contributions to the Australian Electoral Commission (AEC) including attendance at political events, memberships of political business forums, sponsorship and attendance at political party conferences, as well as any cash donations.

Macquarie declares its political contributions to the AEC regardless of any thresholds or other provisions that may otherwise limit the need to disclose. In the year ended 30 June 2014, Macquarie's political contributions in Australia totaled $A463,890 (including $A36,608 GST): Liberal Party $A277,630; Australian Labor Party $A169,210; and National Party $A17,050.

Cash contributions accounted for less than four percent of total contributions in the year ended 30 June 2014. The remainder of the contributions were memberships of political party business forums, attendance at events, sponsorships and attendance at party conferences. No contributions were made by the Group outside of Australia in FY2015.

Advancing environmental management

Macquarie approaches environmental management by focusing on three areas: identifying and managing climate-related risks and opportunities, managing resources used in direct operations, and managing environmental issues in investments (detailed in the ESG Risk Management section on page 50).

Climate change

Macquarie recognises that climate change presents significant challenges to society and generates both risks and opportunities for its business and stakeholders. Consistent with Macquarie's strong risk management focus, climate change and future carbon constraints are considered within the existing risk framework. Macquarie's approach is based on:

- identifying, assessing and managing the risks arising from climate change and future carbon constraints
- identifying and leveraging opportunities for investment and trading for Macquarie and its clients
- assessing and managing its own carbon footprint.

Under this framework:

- businesses are responsible for considering greenhouse and energy management during due diligence for new businesses and products and addressing local legislative requirements consistent with Macquarie's *Greenhouse and Energy Reporting Policy*
- Macquarie provides clients and staff with research and information about the economic, policy and business impacts of climate change
- Macquarie uses its expertise in carbon markets to assist clients to prepare for compliance with emissions trading and provides emissions risk management products
- Macquarie also uses its expertise in financial services to assist clients active in the renewable energy sector.

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

Direct operations

Macquarie strives to integrate resource efficiency and sustainability into the day-to-day operations of Macquarie's offices and corporate operations through the implementation of Macquarie's Environmental Management Plan. Macquarie's direct environmental impacts predominantly relate to the operation of Macquarie's tenanted offices and data centres, air travel and the resources consumed by these activities.

Reducing emissions from energy use: In the year ended 31 March 2015, Macquarie's total Scope 2 and Scope 3 emissions reduced by six percent from FY2014. FY2015 is the fourth consecutive year of absolute emission reductions. Scope 1 emissions are not reported by Macquarie as they are not material, comprising less than one percent of Macquarie's total emissions in Australia.

Macquarie's total Scope 2 emissions increased by two percent from FY2014, as a result of inclusion of base building[1] energy usage for 50 Martin Place this year. However, when compared with FY2014, Scope 2 emissions on a like-for-like basis (relating only to corporate offices and data centres) decreased by one percent. This reduction is the result of a continued focus on energy use in all Macquarie premises and data centres globally, including a specific program of data centre rationalisation and emphasis on occupying sustainable buildings.

Macquarie's Scope 3 emissions decreased by 14 percent compared with FY2014, due to a five percent reduction in flight miles and updates in emission factors. Macquarie continues to encourage the use of video conferencing and has seen an increase of 10 percent from FY2014 in Macquarie's five largest locations.

Maintaining carbon neutrality: Since 2010, Macquarie has maintained its carbon neutral commitment by reducing and offsetting emissions from its office energy use and business air travel. The Carbon Commitment[2] builds on Macquarie's response to risks and opportunities arising from climate change, its investments and activities in renewable energy, clean technology and environmental markets, and status as a signatory to the CDP.

To offset Macquarie's remaining Scope 2 and Scope 3 emissions and achieve carbon neutrality for corporate offices, data centres, base building and air travel, Macquarie purchased and retired voluntary carbon offsets for the year ended 31 March 2015. Macquarie acquired a diverse portfolio of offsets, focusing on project quality and verifiable emissions reductions. Carbon credits that met Voluntary Carbon Standards and Climate, Community and Biodiversity Standards were purchased from projects in Mexico, Peru and Zambia. These projects, supported by the sale of carbon credits on international markets, provide solutions to reduce carbon emissions in the countries and communities in which they operate.

Supporting sustainable buildings: Focusing on sustainable buildings is a critical way for Macquarie to reduce direct resource consumption and greenhouse gas emissions. Macquarie corporate offices are fitted with water and energy efficient fittings and fixtures and continually monitored for energy performance, environmental quality and staff comfort.

Macquarie aims to ensure all new premises are designed and constructed to achieve a 6 Star Green Star, LEED Platinum, BREEAM Excellent or equivalent rating. All tenancy refurbishments aim to achieve 5 Star Green Star, LEED Gold or equivalent rating for the jurisdiction.

(1) Base building applies only where Macquarie owns and occupies the building. This comprises 50 Martin Place and 9-19 Elizabeth Street Sydney.

(2) Refers to Macquarie's carbon neutral commitment across its global corporate office energy use and corporate air travel.

Sustainability ratings for Macquarie hub offices

Office	Rating – Operation/ Fit-out	Rating – Design
50 Martin Place, Sydney	5 Star NABERS (energy commitment agreement)	6 Star Green Star
Ropemaker Place, London	n/a	BREEAM Certified–Excellent
125 W55th St, New York	LEED Certified – Gold	n/a
One IFC, Hong Kong	LEED Certified – Gold	BEAM Certified – Platinum
1 Shelley Street, Sydney	4 Star NABERS energy usage	6 Star Green Star
1 Martin Place Sydney	3 Star NABERS energy usage	n/a

Creating sustainable and collaborative workplaces

In FY2015 Macquarie opened its new global headquarters at 50 Martin Place in Sydney, Australia. The new premises has achieved a 6 Star Green Star Design and As Built rating from the Green Building Council of Australia, the As Built rating being the first in Australia for a large scale heritage listed office building. Through a commitment agreement, the building is also targeting an operational energy efficiency rating of 5 star NABERS energy.

The redevelopment of 50 Martin Place has provided an opportunity for a more sustainable and collaborative workplace. The performance of the building is continually monitored, including air quality and acoustic monitoring to ensure the environmental quality of the internal environment and the comfort of staff is maximised.

Improved spaces and facilities including change rooms, showers, bike racks, parent's room, and quiet and multi-faith prayer room provide greater flexibility for employees.
The internal atrium stairway and open atrium space provides greater connectivity between floors and encourages collaboration between employees.

Technology upgrades and improvements including audio visual and video conferencing services facilitate collaboration and communication between clients and employees globally, and reduce the need for business travel.

The sustainable design features of the building, including the glass-domed roof and expanded atrium space which allows 55 percent more daylight to penetrate compared with previous structure and a bespoke air-conditioning system, assist to make a more comfortable and energy efficient building.

Environmental, Social and Governance Report
continued

Improving resource efficiency: Over the last three years, initiatives have been rolled out to reduce paper use and, where tenancy arrangements permit, reduce waste and manage water consumption.

An ongoing program of technology and behavioural initiatives has resulted in a continued reduction in paper use from the FY2012 baseline of 167,106 reams to 121,051 reams in FY2015, a decrease of 27 percent. The environmental impacts of paper use are also being addressed through an ongoing commitment to use certified sustainable or recycled paper stock. Paper use data is now collected across the majority of Macquarie offices, representing approximately 80 percent of Macquarie staff.

Since the FY2011 baseline sustainability audits of its offices, Macquarie has implemented standardised waste recycling and water management programs wherever tenancy arrangements allow. Waste and water data is currently collected from large offices where Macquarie occupies the entire building. For example, from the FY2012 baseline to FY2014, waste in Sydney offices reduced by 29 percent, from 1,129 tonnes to 799 tonnes. The waste recycling programs in these offices resulted in 70 percent of total waste being recycled, diverting over 425 tonnes of waste from landfill in FY2015.

Macquarie will continue to identify opportunities to improve waste management and water use in offices accommodating more than 100 staff.

Sustainable procurement: As part of its ongoing procurement strategy, Macquarie continues to include sustainability clauses within tender documents. These clauses include consideration of governance and ethics, legal responsibilities, financial, environmental, workforce considerations and risk management, and are used by the Business Services Division (Sourcing and Vendor Management) as a factor in supplier selection.

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Environmental, Social and Governance Report
continued

Carbon and Energy Data for FY2015

			Baseline[1]	
		Units	FY09	FY10
Scope 2 Indirect	Electricity emissions:	tCO2-e		
	— corporate offices and data centres[2]		49,632	50,923
	— base buildings[3]		–	–
	Total electricity emissions		**49,632**	**50,923**
Scope 3 Indirect	Business air travel emissions[4]	tCO2-e	n/a	**78,018**
Total Emissions	Total Scope 2 and Scope 3	tCO2-e	–	**128,941**
Energy	Macquarie energy use:	TJ		
	— corporate offices and data centres		237	251
	— base buildings		–	–
	Total Macquarie energy use		**237**	**251**
Per Capita Emissions	Electricity emissions per capita:	tCO2-e per person		
	— corporate offices and data centres		3.93	3.49
	— base buildings		–	–
	Total emissions per capita		**3.93**	**3.49**
	Business air travel emissions per capita	tCO2-e per person	n/a	**5.34**

(1) Note that the baseline for Scope 2 electricity emissions is FY2009 while, due to data availability, the baseline for Scope 3 business air travel emissions is FY2010. Total Scope 2 and Scope 3 emissions reductions are calculated based on a FY2010 baseline.

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

(3) Base building refers to the energy required to operate a building and excludes tenanted energy use. It includes the mechanical plant, lifts, and lighting in lobby and other common areas. Base building applies only where Macquarie owns and occupies the building. This comprises 50 Martin Place and 9-19 Elizabeth Street Sydney.

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

(5) Some numbers in this column have been revised from last year's Annual Report to reflect updated invoice data.

		Baseline				Change
FY11	FY12	FY13	FY14(5)	FY15	Prior Year	Baseline
51,941	52,497	46,499	42,389	41,842	-1%	-16%
–	–	–	–	1,557	n/a	n/a
51,941	**52,497**	**46,499**	**42,389**	**43,399**	**2%**	**-13%**
79,330	**73,260**	**63,334**	**48,870**	**41,954**	**-14%**	**-46%**
131,271	**125,757**	**109,833**	**91,259**	**85,353**	**-6%**	**-34%**
268	275	243	231	222	-4%	-6%
–	–	–	–	7	n/a	n/a
268	**275**	**243**	**231**	**229**	**-1%**	**-4%**
3.35	3.55	3.4	3.05	2.98	-2%	-24%
–	–	–	–	0.11	n/a	n/a
3.35	**3.55**	**3.4**	**3.05**	**3.09**	**1%**	**-21%**
5.11	**4.95**	**4.64**	**3.51**	**2.99**	**-15%**	**-44%**

Environmental, Social and Governance Report
continued

Investments, markets and products

While Macquarie's overarching approach aims to embed ESG as part of normal business practice, Macquarie businesses also facilitate and pursue investments, markets and products with an ESG focus.

ESG research and collaboration

Macquarie has industry-leading analysts dedicated to publishing specialist ESG and alternative energy research. The analysts focus on ESG issues as part of their detailed analysis of listed stocks and in the application of an integrated approach, giving top down analysis followed by bottom-up stock valuations. The team published specialist ESG reports in FY2015 covering topics such as employee engagement, company ESG ratings and corporate governance.

The global Alternative Energy Research team covers listed wind, solar, metering and battery companies around the world. The team is coordinated from London with analysts located in Shanghai, Sydney and New York. The team published over 200 pieces of research in FY2015 and covered over 30 alternative energy stocks. In FY2015, Macquarie published a series of reports focused on stock opportunities with leverage to Chinese government policies including new energy vehicles and the development of alternative power.

During FY2015, Macquarie's research teams received investment client recognition and industry recognition for its alternative energy and ESG research including a top three rating for its Australian ESG research by Australian Institutional Investors.(1)

Investment in renewable energy and clean technology

Macquarie has been an active investor and adviser in the renewable energy and clean technology sectors for over 15 years. Drawing on its global network, sector expertise and strong record, Macquarie services clients across various renewable energy technologies including: solar, wind, waste to energy, geothermal, biomass and energy efficiency.

Macquarie and Macquarie-managed businesses also have more than 4380MW of diversified renewable energy assets in operation.

Investment and advisory activities over the past 12 months included:

- Idaho Wind Partners: Macquarie Infrastructure Company acquired a majority holding in a 183 MW wind power generation project near Twin Falls in Idaho, USA
- Hengi Water: Macquarie Greater China Infrastructure Fund invested in two class 1-A industrial wastewater plants and a recycling plant with total capacity of 220,000 tonnes per day
- Sorgenia Green Srl: Macquarie European Infrastructure Fund 4 acquired this Italian and French renewable energy project developer and operator. Its Italian wind business includes a ~112MW portfolio of operational wind farms with a further ~70MW of projects permitted for development. The French wind business is a joint venture with a total ~165MW portfolio of operational wind farms and a development pipeline of ~40MW of projects
- Low Carbon JV: Macquarie Capital invested in five new large-scale UK solar projects through its partnership with solar developer Low Carbon. The 50:50 partnership has funded the Bottom Plain solar park (10.1MW), Berwick solar park (8.2MW), Great Wilbraham solar park (38.1MW), Emberton solar park (9.4MW) and Branston solar park (18.7MW).

Macquarie provides financing to renewable energy businesses, tailoring funding instruments to meet the needs of the client. Examples of transactions in FY2015 included:

- financing a 29MWp ground mounted solar photovoltaic project in Pembrokeshire Wales. With more than 113,000 solar panels, this is one of the largest solar projects in the UK to date
- financing a portfolio of seven on shore wind farms in the UK with a generating capacity of 55MW for Capital Dynamics Clean Energy and Infrastructure Fund
- providing over $A330 million in financing for energy efficiency upgrades and renewable energy installations for buildings through the US Property Assessed Clean Energy (PACE) Scheme. Through this scheme Macquarie provides finance linked to the property and is repaid as part of the annual property tax assessment. Macquarie provides market access to PACE loans through securitisation into bonds for investors
- financing for 24 different commercial solar products in Massachusetts generating ~65MW of solar electricity production and over 40MWh of residential roof top solar power generation in support of the solar renewable energy credit program
- financing agreement for the installation of geothermal heat exchange systems at Sainsbury's supermarkets in the UK. Once installed and operational, the equipment will enable Sainsbury's to significantly reduce its energy usage.

(1) Peter Lee Associates Survey 2014

Trading carbon and environmental products

Macquarie brings its depth of experience as a top-tier global commodities trading and finance house to the environmental markets. Macquarie is involved with trading environmental financial products and is a major global carbon trader by volume. Macquarie offers the following services and products:

- a full-service trading desk making physical and derivative markets in European Union emissions allowances and Certified Emission Reductions as well as dealing in domestic emission allowances and renewable energy certificates across multiple jurisdictions
- inventory financing for environmental markets compliance unit holdings
- debt/equity investment and derivative financing for renewable energy projects
- tailored environmental risk management solutions from simple hedge structures to complex structured derivatives.

Asset financing

Macquarie uses its specialist expertise in finance and asset management to provide the following solutions and services:

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

Energy efficient asset finance

Established in November 2011, the energy efficient asset financing program focuses on energy efficient assets in Australia and the UK. The program has brought a new source of finance to stimulate uptake of, and investment in, clean energy technologies in existing commercial buildings and industries. Equipment finance can include: solar PV; distributed gas generation; energy-efficient lighting systems (LED); heating (including biomass boilers and heat pumps); ventilation and air-conditioning; and smart building systems.

Smart metering

In the year ended 31 March 2015, Macquarie continued to increase its funding lines to UK energy retailers to facilitate the accelerated roll-out of smart gas and electricity meters which assists with efficient energy management in the industrial, commercial and residential sectors.

Of the more than seven million gas and electricity smart meters in the UK, Macquarie currently leases more than one million smart meters to energy retailers with existing contracts in place to fund approximately 28,000 smart gas and electricity meters per month.

Solar photovoltaic system financing

Macquarie Energy Leasing continues to expand its commercial rooftop solar finance offerings in Australia. The business is using existing channels to market through its extensive commercial finance broker network as well as direct to large corporate vendors.

Specialised ESG products

Macquarie has experienced teams that offer clients specialised investment products that respond to and support their particular ESG requirements. Examples of these investments include:

- Delaware Investments Socially Responsible Investing (SRI) products – Delaware has longstanding experience in ESG investing and seeks to invest in companies that incorporate positive ESG behaviour into their business operations. Offering a spectrum of specialist products to investors, total assets managed under these SRI strategies is $US809.3 million as at 31 March 2015
- Macquarie Private Portfolio Management (MPPM) offers wholesale clients customised investment solutions aligned to their specific ESG goals or screening preferences. MPPM also provides retail clients with access to model portfolios with a broad, socially responsible investing bias using both internal and external factors. All clients investing in MPPM-managed strategies have access to a research process that includes embedded ESG-focused factors. The combined funds under management covered by these strategies is $A1.5 billion
- Macquarie Bonds High Quality (AUM $US115 million) and M200 (AUM $US65 million) are managed according to social responsibility criteria. In 2015, both bonds were awarded with the Austrian eco label for sustainability by the Austrian Ministry of Environment.

People and workplace

Macquarie recognises that its most important assets are its people. Macquarie recruits talented individuals and encourages them to realise their potential in an environment that values excellence, innovation and creativity. Macquarie provides a wide range of programs that reflect Macquarie's *What We Stand For* principles and support the development, diversity and wellbeing of its employees. This ensures the business continues to meet the highest standards and serves the evolving needs of its clients.

What we stand for

Macquarie seeks to realise opportunity for the benefit of its clients, its shareholders, its community and its people. Macquarie is in business to be profitable, but recognises that it is the way it does business that defines the organisation. The trust and confidence of Macquarie's clients and the community are critical to its long-term success.

What We Stand For is the statement that sets out the three principles which guide the way Macquarie does business. The principles reflect Macquarie's long-held approach of Opportunity, Accountability and Integrity.

The Code incorporates these principles. The Code also includes guidelines and advice on escalation and good decision-making.

The Integrity Office, which was established in 1998, is an independent function within Macquarie, reporting to the CEO and providing annual reports to the BGCC.

Environmental, Social and Governance Report
continued

The Integrity Office has responsibility for the promotion, understanding and staff awareness of *What We Stand For*. To ensure that Macquarie's culture of honesty and integrity remains strong throughout the organisation, all staff who join Macquarie receive specific training on *What We Stand For* and the Code. Integrity Officers work with business leaders to ensure that staff continue to be trained and supported in good decision-making and escalation and receive continued communication of the principles that underpin the way Macquarie operates.

The Integrity Office works with RMG Compliance to ensure that all staff read the Code, and sign an annual declaration that they have done so.

The Integrity Office provides an independent and confidential point of escalation for staff to seek advice or raise concerns about integrity issues. Macquarie has whistleblower policies and protections in each of the regions in which it operates. In addition, Macquarie has an externally-managed staff hotline that enables staff to report suspected breaches of the Code, or other misconduct, anonymously.

Learning and development

Macquarie strives to create an environment where learning is a part of an employee's career development and we recognise the benefits to both the individual and the wider organisation of such investment.

Macquarie continues to invest in employee development by providing targeted and role-specific learning opportunities, both to meet the needs of Macquarie's diverse talent base and to build the skills and behaviours needed for long-term organisational success.

Since 1 April 2014, a total of almost 1,170 classroom events have been delivered globally and a further 982 online courses and 387 knowledge tests have been available including compliance-related training for new and existing staff (focusing on fraud awareness, anti-bribery, anti-money laundering/counter-terrorism financing and other financial services compliance issues) as well as leadership courses and materials on financial services products.

As part of Macquarie's leadership development efforts, in 2014 Macquarie launched a new global leadership development program targeted at new director level staff and designed to focus on both business and people leadership skills. Over 300 staff globally have commenced the program since 1 April 2014, with strong business and participant feedback. Building on this success, the development of an extension program aimed at our most senior directors is now underway for launch in 2015.

Macquarie also continues to focus on developing leadership capability more broadly with 324 people having attended Macquarie's frontline manager program, as well as investment through executive coaching and mentoring initiatives.

In addition to Macquarie delivered programs, many employees benefit from sponsored education and can pursue career development opportunities at independent institutions such as a Master of Finance offered by INSEAD.

Macquarie also invests significant time and effort in the employee onboarding and orientation process, with a series of learning and development activities (including events hosted by the CEO) designed to communicate and embed the Macquarie culture at the earliest possible stage.

Alongside the structured learning and development curriculum, Macquarie also recognises and encourages the developmental benefits of wider community engagement by employees. Involvement of employees in this through the Macquarie Foundation and other channels is widely communicated and encouraged.

To support Macquarie's merit-based culture, regular appraisals are a key part of performance measurement, including goal setting and ongoing career development. In addition to encouraging regular and ongoing feedback with managers, Macquarie requires all employees to have at least one formal annual appraisal session with their manager where employees are encouraged to raise, discuss and respond to matters relating to training, further education and development of leadership capabilities. A Group-wide performance management system is in place to document all performance and development related discussions. Customised online and classroom training is also available to all managers and staff to ensure they get the support needed to complete these activities effectively.

Diversity

Macquarie's ongoing commitment to workforce diversity ensures its business remains innovative, sustainable and continues to meet the evolving needs of its clients. Macquarie's broad range of experiences, skills and views are key strengths and critical to the wide range of services it delivers across a global operating environment.

More detailed information about Macquarie's approach to diversity is provided in the Diversity Report.

Workplace Work Health and Safety

Macquarie has established safe work practices to ensure it provides a workplace free from illness and injury. A safe work environment is provided through workplace safety inspections that allow early identification and mitigation of hazards. This is combined with ergonomic workstations and office spaces designed to maximise health and wellbeing.

These systems are reviewed on an ongoing basis to ensure safe work and employee wellbeing standards are maintained across the global workforce.

Macquarie's commitment to providing a safe work environment has resulted in the prevalence and severity of incidents remaining low and consistent with previous years. Health and safety representatives are appointed globally to assist both in the reporting and rectification of incidents and in the development and dissemination of employee health and wellbeing initiatives across Macquarie.

Macquarie recognises the positive impact healthy employees have on business performance. This extends beyond professional development to the personal wellbeing of employees, incorporating psychological and physical health. Macquarie provides initiatives which promote and empower employees to own their health and wellbeing, including:

– confidential counselling services (Employee Assistance Program)
– health screenings and assessment to help employees understand and improve their personal health status
– educational seminars on healthy leadership, effective communication, achieving balance in a high performance environment and diet and nutrition
– training on topics including managing a flexible workforce, appropriate workplace behaviour and managing mental health in the workplace.

Engaging stakeholders

Clear dialogue with stakeholders is important to building strong relationships, maintaining trust, enhancing business performance and evolving our ESG approach. Macquarie regularly engages with a broad range of stakeholders including shareholders, investors, clients, analysts, industry groups, governments, employees and the wider community. Macquarie's key engagement activities in 2015 are summarised below:

– **shareholders and investors**: Macquarie provides clear and open lines of communication with shareholders, analysts, investors and their advisors well beyond the key events of the corporate calendar, such as the AGM and result and operational briefings. Investor Relations oversees an extensive program which includes domestic and international investor roadshows, conferences and briefings and responds to investor queries to provide transparency about the ESG framework and approach
– **political engagement**: Macquarie's Government Relations team has lead responsibility for maintaining relationships with key government and public sector stakeholders
– **employees**: Results of the Macquarie-wide staff survey conducted in 2013 have continued to be used by Macquarie's businesses to inform areas of priority for action planning and to maximise sustainable staff engagement. In late 2014, four of the businesses conducted a follow-up pulse check survey to seek feedback on the effectiveness of recent efforts and to calibrate current levels of engagement. Analysis of the responses has been fed back into the action planning process to ensure that the right initiatives are being pursued and to identify further opportunities. While pulse-check surveys are typically business-specific, overall results indicate that positive levels of engagement continue to be maintained
– **communities:** The Foundation provides financial and other forms of support to a wide range of community organisations and programs. A more detailed overview of the Foundation's engagement with communities is provided in the Macquarie Group Foundation section of this Annual Report, along with the Foundation's Annual Report which is available on the Macquarie website.

About these disclosures

In 2013 the GRI released the latest evolution of its Reporting Guidelines – G4. Macquarie is seeking to transition to G4 and has used the GRI G4 reporting principles to guide disclosures within this Annual Report. The content of the disclosures is based on Macquarie's ESG priorities as confirmed through an external review, the interests of stakeholders, including investors and analysts, and the applicable GRI indicators.

Consistent with Macquarie's approach to sustainability, information concerning governance, environment, social and economic performance is presented throughout the Annual Report rather than as a separate disclosure. A GRI index is available on Macquarie's website.

This is the end of the Environmental, Social and Governance Report.

Environmental, Social and Governance Appendix
Independent review

Independent review of selected Subject Matter contained in Macquarie Group Limited's 2015 Annual Report

Purpose

The purpose of this document is to define the selected Subject Matter (the selected Subject Matter) contained within Macquarie Group Limited's (MGL) 2015 Annual Report that have been included in the scope of PwC's limited assurance engagement.

Scope and the selected Subject Matter

The selected Subject Matter that MGL requested be included within the scope of PwC's limited assurance engagement comprised the following selected corporate sustainability information for the 12 months ending 31 March 2015 (the reporting period):

a) total electricity consumed from MGL's corporate offices, data centres and base building consumption (where MGL owns and occupies the building) around the world
b) total indirect emissions from electricity usage (Scope 2) from MGL's corporate offices, data centres and base building consumption (where MGL owns and occupies the building) around the world
c) Scope 3 emissions associated with short, medium and long-haul flights procured by MGL
d) management's assertion that carbon offsets have been purchased and retired for the 2015 reporting period representing a quantity of greenhouse emissions offset greater than the sum of b) and c).

Basis of preparation

Organisational boundary

Corporate offices and data centres

Macquarie's corporate offices and data centres are defined as:

– offices leased by MGL operating entities globally which are also occupied by MGL staff and have a Net Usable Area (NUA) – the area that can be fitted out by the tenant greater than 100m^2
– data centres around the world considered to be under the ongoing 'operational control' of MGL. In this instance 'operational control' is defined with reference to the *Australian National Greenhouse and Energy Reporting Act (2007)*
– new offices from business acquisitions from the month of acquisition.

The following exclusions have been applied in determining the reporting boundary for corporate offices:

– offices or buildings that are owned or managed by an MGL entity but are not tenanted by Macquarie staff
– serviced offices used by Macquarie staff where MGL has no oversight of the energy usage of the office. Energy costs for serviced offices are typically included as part of a service fee
– joint venture offices (where the joint venture is the only Macquarie related occupant of the office). Joint venture offices are defined as offices where Macquarie staff may be located as part of a joint venture business activity but where Macquarie has limited ability to influence the operation of these offices and does not have oversight of the data required to calculate greenhouse gas (GHG) emissions.

Base building

Macquarie's base buildings are defined as:

– offices or buildings where Macquarie owns and occupies the building. Base building energy refers to the energy required to operate the mechanical plant, lifts and lighting in the lobby and other communal areas.

The following exclusions have been applied in determining the reporting boundary for base buildings:

– energy use in this category excludes tenanted energy use in Macquarie owned and operated buildings.

Business air travel

Business air travel is defined as travel ticketed through Macquarie's Travel Management Companies for the primary purpose of business. Where business trips booked through Macquarie's Travel Management Companies include staff-funded spousal travel or personal leisure arrangements made as an aside to a business trip, this has been included in 'business air travel'.

Calculating and measuring GHG emissions and energy use

Energy use and GHG emissions

Direct emissions associated with natural gas and diesel (Scope 1 emissions)

Australian data for Scope 1 emissions associated with fuel combustion, natural gas and refrigerants within the organisational boundary was obtained from supplier invoices and found to comprise less than one percent of Macquarie's total Australian emissions. On this basis, Scope 1 emissions for Macquarie's corporate offices internationally have been excluded in calculating total GHG emissions for the purposes of this report.

Total electricity consumed

Approximately 85 percent of the electricity data for the reporting period was obtained directly from actual tenancy or building data. The remaining 15 percent of energy consumption was estimated by one of the following:

- where invoiced data existed for an office for part of the reporting period, determining daily electricity consumed for that part of the reporting period and extrapolating this out to the remainder of the reporting period for that office
- where historical data exists for the office this is used to estimate the electricity consumed for the reporting period
- where no invoice data was available for a particular office, estimating electricity consumed for that office based on the Net Lettable Area of the office and the average electricity consumption per square metre of other offices in the same region.

Emission factors outlined in *Measurement of GHG emissions* have then been applied to determine the equivalent indirect emissions associated with electricity consumed (Scope 2 emissions).

Other indirect emissions associated with business air travel (Scope 3 emissions)

Air travel data was based on reports provided by International SOS, the organisation contracted to track MGL staff travel and provide emergency assistance where required.

Emission factors outlined in *Measurement of GHG emissions* have then been applied to mileage to determine the equivalent indirect emissions associated with business air travel (Scope 3 emissions).

Measurement of GHG emissions

The following emissions factors have applied in calculating GHG emissions (tonnes CO_2-e):

Component	Reference documents
Australian offices	*National Greenhouse and Energy Reporting (Measurement) Determination 2008 and subsequent amendments* for the calculation of greenhouse gas (GHG) emissions.
EMEA offices	Department for Environment Food and Rural Affairs (DEFRA) 2014 Government GHG Conversion Factors for Company Reporting: Methodology Paper for Emission Factors.
Americas offices	The Climate Registry Information System (CRIS) (2014).
Asia offices	Department for Environment Food and Rural Affairs (DEFRA) 2014 Government GHG Conversion Factors for Company Reporting: Methodology Paper for Emission Factors.
Air travel	Department for Environment Food and Rural Affairs (DEFRA) 2014 Government GHG Conversion Factors for Company Reporting: Methodology Paper for Emission Factors.

Scope 2 emissions factors used for Australian and The Americas offices, and Scope 3 emissions factors for all air travel include greenhouse gases in addition to carbon dioxide and are expressed in carbon dioxide equivalents (CO_2-e) as stipulated within the associated reference documents. Scope 2 emission factors used for the United Kingdom and remaining office locations only comprise carbon dioxide emissions (CO_2) as stipulated within the reference documents. The jurisdictional variance in approaches to Scope 2 methodology had no material effect on outcome.

Carbon offsets purchased and retired

All carbon offsets purchased were registered under the international Gold Standard issued by the Gold Standard Foundation, Voluntary Carbon Standard issued by the VCS Association or US Climate Action Reserve protocol.

Environmental, Social and Governance Appendix
Independent limited assurance report
continued

Independent Limited Assurance Report to the Directors of Macquarie Group Limited over selected Subject Matter included in MGL's Annual Report for the 12 months ending 31 March 2015

We have been engaged to provide limited assurance on selected subject matter (the **selected Subject Matter**) presented in the Environmental, Social and Governance (ESG) Report section of Macquarie Group Limited's (**MGL**) Annual Report (the **Annual Report**) for the 12 months ending 31 March 2015 (the **period**), in accordance with the basis of preparation (the **Reporting Criteria**) set out on pages 62 and 63 in the Annual Report.

The selected subject matter

The selected Subject Matter was chosen by MGL and comprises:

a) total electricity consumed from MGL's corporate offices, data centres and base building consumption (where MGL owns and occupies the building) around the world (TJ)
b) total indirect emissions from electricity usage (Scope 2) from MGL's corporate offices, data centres and base building consumption (where MGL owns and occupies the building) around the world (tCO_2-e)
c) total Scope 3 emissions associated with short, medium and long-haul flights procured by MGL (tCO_2-e)
d) management's assertion that carbon offsets have been purchased and retired for the reporting period representing a quantity of greenhouse emissions offset greater than the sum of b) and c) above.

Our responsibility

Our responsibility is to express a conclusion on the selected Subject Matter based on our procedures.

The procedures selected depend on auditor judgment, including an assessment of the risks of material misstatement of the selected Subject Matter, whether due to fraud or error. In making these risk assessments, we consider internal control relevant to MGL's preparation and fair presentation of the selected Subject Matter in the Annual Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of MGL's internal controls.

We read other information included within the ESG Report section in the Annual Report and consider whether it is consistent with the knowledge obtained through our procedures. We consider the implications for our report if we become aware of any apparent material inconsistencies with the selected Subject Matter. Our responsibilities do not extend to any other information reported by MGL.

In conducting our assurance engagement, we have followed applicable independence requirements of Australian professional ethical pronouncements.

Management's responsibilities

Management of MGL are responsible for preparing and presenting the selected Subject Matter in accordance with the Reporting Criteria. Management are responsible for determining the adequacy of the Reporting Criteria to meet the reporting needs of MGL. Management's responsibility also includes the design, implementation and maintenance of a system of internal control relevant to the preparation and fair presentation of the selected Subject Matter that is free from material misstatement, whether due to fraud or error.

Inherent limitations

Non-financial performance information, including the selected Subject Matter, may be subject to more inherent limitations than financial information, given both its nature and the methods used for the determining, calculating and estimating such information. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments. It is important to read the selected Subject Matter in the context of MGL's Reporting Criteria.

Assurance work performed

We conducted our limited assurance engagement in accordance with the Australian Auditing and Assurance standard ASAE 3410 "Assurance Engagements on Greenhouse Gas Statements" (ASAE 3410) issued by the Australian Auditing and Assurance Standards Board. Our procedures primarily consisted of:

- enquiries of management
- analytical procedures
- substantive testing of sample data to source information
- re-performance of calculations
- detailed walk-through of key processes and controls
- detailed testing over the consolidation and reporting process applied by MGL.

As a limited assurance engagement generally comprises of making enquiries, primarily of management, and applying analytical procedures and the work is substantially less detailed than that undertaken for a reasonable assurance engagement, the level of assurance is lower than would be obtained in a reasonable assurance engagement. The conclusion expressed in this report has been formed on the above basis.

Use of our report

This report has been prepared in accordance with our engagement terms, solely for the Directors of MGL as a body, for the sole purpose of reporting on the selected Subject Matter within the Annual Report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of MGL for our work or for this report, or for any other purpose other than that for which this report was prepared.

We consent to the inclusion of this report in the Annual Report to assist MGL shareholders in assessing whether the Directors have discharged their responsibilities by commissioning an independent assurance report in connection with the selected subject matter.

Conclusion

Based on the work described above, nothing has come to our attention which causes us to believe that the selected Subject Matter included in the Annual Report for the 12 months ending 31 March 2015 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

PricewaterhouseCoopers.

PricewaterhouseCoopers Australia
by

John Tomac

John Tomac
Partner
Sustainability & Climate Change

08 May 2015

Directors' Report
for the financial year ended 31 March 2015

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Group Limited, the Directors submit the income statements and cash flow statements for the year ended 31 March 2015 and the balance sheets as at 31 March 2015 of the Consolidated Entity at the end of, and during, the financial year ended on that date and report as follows:

Directors

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

Independent Directors

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

Executive Voting Director

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

Other than Mr Cairns, the Directors listed above each held office as a Director of Macquarie throughout the financial year ended 31 March 2015. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Dr H.M. Nugent AO and Mr P.M. Kirby retired as Independent Directors on 24 July 2014.

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

Principal Activities

The principal activity of Macquarie during the financial year ended 31 March 2015 was to act as 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 Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review that are not otherwise disclosed in this report.

(1) Mr Cairns was appointed to the Board as an Independent Director effective from 1 November 2014.

Result

The financial report for the financial years ended 31 March 2015 and 31 March 2014, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary owners for the financial year ended 31 March 2015 was $A1,604 million (2014:$A1,265 million).

Dividends and Distributions

Subsequent to year end, the Directors have announced a final ordinary dividend of $A2.00 per share, 40 percent franked based on tax paid at 30 percent ($A666 million in aggregate). The final ordinary dividend is payable on 2 July 2015.

On 16 December 2014, the Company paid an interim ordinary dividend of $A1.30 per share 40 percent franked ($A413 million in aggregate) for the financial year ended 31 March 2015.

On 2 July 2014, the Company paid the final dividend of $A1.60 per share 40 percent franked ($A508 million in aggregate) for the financial year ended 31 March 2014.

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

State of affairs

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

Operating and financial review

Please refer to the Chairman's and Managing Director's Letter and the Operating and Financial Review sections on pages 4 to 18 for the following in respect of the Consolidated Entity which includes:

- a review of operations during the year and the results of those operations
- likely developments in the operations in future financial years and the expected results of those operations
- comments on the financial position, and
- comments on business strategies and prospects for future financial years.

In respect of likely developments, business strategies and prospects for future financial years, material which if included would be likely to result in unreasonable prejudice to the Consolidated Entity, has been omitted.

Directors' equity participation

As at 8 May 2015, the Directors have relevant interests, as notified by the Directors to the ASX in accordance with the Act, in the following shares and share options of Macquarie:

	Fully paid ordinary shares	RSUs held in the MEREP[(1)]	PSUs held in the MEREP[(1)]
N.W. Moore	1,611,814	649,723	327,154
G.R. Banks	2,916	–	–
G.M Cairns	4,620	–	–
M.J. Coleman	7,136	–	–
P.A. Cross	7,636	–	–
D. J. Grady	6,306	–	–
M.J. Hawker	7,272	–	–
H.K. McCann	13,864	–	–
N.M. Wakefield Evans	2,636	–	–
P.H. Warne	14,933	–	–

(1) These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan (MEREP) and are subject to the vesting, forfeiture and other conditions applied to grants of awards to Executive Directors, as described in Note 33 to the financial statements in the Financial Report.

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

Directors' other relevant interests

The relevant interests of Directors on 8 May 2015 in managed investment schemes made available by subsidiaries of Macquarie Group and other disclosable relevant interests are listed in the table below:

Name and position	Direct and Indirect Interests	
Executive Voting Director		
N.W. Moore	2004 Macquarie Timber Land Trust units	50
	2006 Macquarie Timber Land Trust units	75
	Macquarie Global Infrastructure Fund III (B) units	2,163,106
Independent Directors		
G.M. Cairns	Macquarie Income Securities	900
D.J. Grady	Macquarie Group Capital Notes (MCN)	400
H.K. McCann	MCN	4,800

Directors' Report
for the financial year ended 31 March 2015
continued

Meeting attendance

Directors' meetings

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

Board meetings

	Monthly Board meetings (12)		Special Board meetings (3)	
	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended
H.K. McCann	12	12	3	3
N.W. Moore	12	12	3	3
G.R. Banks	12	12	3	2
G.M. Cairns[(1)]	5	5	1	1
M.J. Coleman	12	12	3	3
P.A. Cross	12	12	3	3
D.J. Grady	12	11	3	2
M.J. Hawker	12	12	3	3
P.M. Kirby[(2)]	4	4	–	–
H.M. Nugent[(3)]	4	4	–	–
N.M. Wakefield Evans	12	12	3	3
P.H. Warne	12	12	3	3

(1) Mr Cairns was appointed to the Board as an Independent Director effective from 1 November 2014.
(2) Mr Kirby retired as an Independent Director on 24 July 2014.
(3) Dr Nugent retired as an Independent Director on 24 July 2014.

The number of meetings of Committees of the Board, and the number of meetings attended by each of the members of the Committees during the financial year is summarised in the table below:

Board Committee meetings

	Board Audit Committee meetings (7)		Board Governance and Compliance Committee meetings (5)		Board Nominating Committee meetings (2)		Board Remuneration Committee meetings (9)		Board Risk Committee meetings (6)	
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
H.K. McCann[(1)]	–	–	–	–	2	2	7	7	6	6
N.W. Moore[(2)]	–	–	–	–	–	–	–	–	4	4
G.R. Banks[(3)]	1	1	–	–	2	2	7	6	6	6
G.M. Cairns[(4)]	–	–	–	–	1	1	4	4	3	2
M.J. Coleman[(5)]	7	7	5	5	2	2	–	–	6	6
P.A. Cross[(6)]	7	7	–	–	2	2	5	5	6	6
D.J. Grady[(7)]	–	–	5	5	2	2	9	9	6	6
M.J. Hawker	7	7	5	5	2	2	–	–	6	6
P.M. Kirby[(8)]	2	2	1	1	1	1	–	–	1	1
H.M. Nugent[(9)]	–	–	–	–	1	1	4	4	1	1
N.M. Wakefield Evans[(10)]	6	5	5	5	2	2	–	–	6	6
P.H. Warne	–	–	–	–	2	2	9	9	6	6
G.C. Ward[(11)]	–	–	–	–	–	–	–	–	1	1

There were two Board sub-committees convened during the period. Each sub-committee held two meetings with all members in attendance for all meetings. The members of the first sub-committee were Mr McCann, Mr Moore, Mr Coleman and the CFO, Mr Upfold. The members of the second sub-committee were Mr McCann, Mr Moore, Mr Coleman, Mrs Cross and Mr Warne.

The Chairman of the Board and the CEO attend Board Committee meetings by invitation as a matter of course. All Board members are sent Board Committee meeting agendas and may attend any Board Committee meeting.

(1) Mr McCann ceased to be a member of the BRC on 1 June 2014, and was re-appointed to the Committee on 23 July 2014.

(2) Mr Moore ceased to be a member of the BRiC on 31 December 2014.

(3) Mr Banks joined the BNC and BRC, and ceased to be a member of the BAC, on 1 June 2014.

(4) Mr Cairns joined the BNC, BRC and BRiC on 1 November 2014.

(5) Mr Coleman joined the BNC on 1 June 2014.

(6) Mrs Cross joined the BNC on 1 June 2014, and ceased to be a member of the BRC on 1 November 2014.

(7) Ms Grady joined the BNC on 1 June 2014.

(8) Mr Kirby joined the BNC on 1 June 2014, and retired as an Independent Director on 24 July 2014.

(9) Dr Nugent retired as an Independent Director on 24 July 2014.

(10) Ms Wakefield Evans joined the BNC and BAC on 1 June 2014.

(11) Mr Ward is not a Voting Director of Macquarie Group Limited. He was CEO of Macquarie Bank Limited and a member of the BRiC until his resignation from the Bank Board which was effective on 30 June 2014.

Directors' Report
for the financial year ended 31 March 2015
continued

Directors' and officers' indemnification and insurance

Under Macquarie Group's Constitution, Macquarie indemnifies all past and present Directors and Secretaries of Macquarie (including at this time the 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 as follows):

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

This indemnity does not apply to the extent that:

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

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

– indemnify the 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 Director acting as an officer of Macquarie or a wholly-owned subsidiary of Macquarie, or acting as an officer of another company at the specific request of Macquarie or a wholly-owned subsidiary of Macquarie. The insurance policy must be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie Group's position. Insurance must be maintained for seven years after the Director ceases to be a Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings), and
– grant access to the Director to all relevant company papers (including Board papers and other documents).

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

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

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

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.

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 3 following this report.

Non-audit services

Fees paid or payable to the auditor of the Consolidated Entity, PwC, for non-audit services during the period ended 31 March 2015 total $A6.7 million. Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 42 to the financial statements in the Financial Report.

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

– the operation of the Consolidated Entity's Auditor Independence Policy, restricts the external auditor from providing non-audit services under which the auditor assumes the role of management, becomes an advocate for the Consolidated Entity, or audits its own professional expertise. The policy also provides that significant permissible non-audit assignments awarded to the external auditor must be approved in advance by the BAC or the BAC Chairman, as appropriate, and

– the BAC has reviewed a summary of non-audit services provided by PwC, including details of the amounts paid or payable to PwC for non-audit services, and has provided written advice to the Board of Directors.

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

Rounding of amounts

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

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

Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2015 not otherwise disclosed in this report.

H Kevin McCann AM

Independent Director and Chairman

Nicholas Moore

Managing Director and
Chief Executive Officer

Sydney
8 May 2015

Directors' Report Schedule 1 – Directors' experience and special responsibilities for the financial year ended 31 March 2015

H Kevin McCann AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 74)

Independent Chairman since March 2011
Chairman – Board Nominating Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

Kevin McCann joined the Board of Macquarie Group as an Independent Director in August 2007. Mr McCann was appointed as an Independent Director of Macquarie Bank in December 1996 and continues to hold this position. He was appointed Chairman of the Macquarie Group and Macquarie Bank Boards in March 2011.

Experience

Kevin McCann was a Partner of leading Australian law firm Allens Arthur Robinson for 34 years and also served as Chairman. He practised as a commercial lawyer specialising in mergers and acquisitions, mineral and resources law and capital markets transactions.

Mr McCann has wide board experience with major Australian companies. He was previously Chairman of Origin Energy Limited, Healthscope Limited and ING Management Limited and a Director of BlueScope Steel Limited.

Listed company directorships

(held at any time in the last three years)

- Chairman, The Citadel Group Limited (since October 2014)
- Chairman, Origin Energy Limited (from February 2000 to October 2013)
- Director, BlueScope Steel Limited (from May 2001 to April 2013).

Other current directorships/appointments

- Chairman, National Library of Australia Foundation
- Director, Sydney Institute of Marine Science
- Director, the United States Studies Centre at the University of Sydney
- Director, Evans and Partners Pty Limited
- Director, Origin Foundation
- Fellow, University of Sydney Senate
- Co-Vice Chair, New Colombo Plan Reference Group.

Mr McCann is a resident of New South Wales.

Nicholas W Moore, BCom LLB (UNSW), FCA (age 56)

Managing Director and Chief Executive Officer since May 2008

Nicholas Moore joined the Board of Macquarie Group in February 2008 as an Executive Voting Director. Mr Moore was appointed as an Executive Voting Director of Macquarie Bank in May 2008 and continues to hold this position.

Experience

Nicholas Moore joined Macquarie in 1986 and led the global development of its advisory, funds management, financing and securities businesses.

Appointed Chief Executive Officer in 2008, he is now leading the continued global growth of Macquarie Group as it builds on its position as one of Asia-Pacific's leading financial services providers.

Other current directorships/appointments

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

Mr Moore is a resident of New South Wales.

Gary R Banks AO, BEc (Hons) (Monash), MEc (ANU) (age 65)

Member – Board Nominating Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

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

Experience

Gary Banks has a wealth of experience across economics, public policy and regulation in Australia and internationally. He was Chairman of the Australian Productivity Commission from its inception in 1998 until 2012.

He has also held senior roles with the GATT Secretariat in Geneva, the Trade Policy Research Centre in London, the Centre for International Economics in Canberra and consulted to the World Bank, Organisation for Economic Co-operation and Development (OECD) and World Trade Organisation.

Other current directorships/appointments

- Chief Executive and Dean, the Australia and New Zealand School of Government
- Member, Prime Minister's Business Advisory Council
- Chairman, Regulatory Policy Committee of the OECD
- Member, Advisory Board of the Melbourne Institute, University of Melbourne
- Adjunct Professor, Australian National University.

Mr Banks is a resident of Victoria.

Gordon M Cairns, MA (Hons) (Edin) (age 64)

Member – Board Nominating Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

Gordon Cairns joined the Boards of Macquarie Group and Macquarie Bank as an Independent Director in November 2014.

Experience

Gordon Cairns has held a range of management and executive roles throughout his career, including Chief Executive Officer of Lion Nathan Limited. He has extensive experience as a company director, including nine years as a non-executive director of Westpac Banking Corporation, where he served on the Board Risk Management and Remuneration Committees.

Mr Cairns has served as a director on the boards of Lion Nathan Australia Limited and Seven Network Australia Limited, and as Chairman of David Jones Limited and Rebel Group Pty Limited.

Listed company directorships

(held at any time in the last three years)

- Chairman, Origin Energy Limited (since October 2013) (Director since June 2007)
- Chairman, David Jones Limited (from March 2014 to August 2014)
- Director, Westpac Banking Corporation (from July 2004 to December 2013).

Other current directorships/appointments

- Chairman, Quick Service Restaurant Group Pty Ltd
- Chairman, Origin Foundation
- Senior Adviser, McKinsey & Company.

Mr Cairns is a resident of New South Wales.

Michael J Coleman, MCom (UNSW), FCA, FCPA, FAICD (age 64)

Chairman – Board Audit Committee
Member – Board Governance and Compliance Committee
Member – Board Nominating Committee
Member – Board Risk Committee

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

Experience

A senior audit partner with KPMG for 30 years, Michael Coleman has significant experience in risk management, financial and regulatory reporting and corporate governance.

Mr Coleman was KPMG's inaugural National Managing Partner Assurance and Advisory from 1998 to 2002, National Managing Partner for Risk and Regulation from 2002 to 2010 and Regional Leader for Asia Pacific Quality and Risk Management from 2002 to 2011. He has also served as Chairman of ING Management Limited.

Listed company directorships

(held at any time in the last three years)

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

Other current directorships/appointments

- Deputy Chairman, Financial Reporting Council
- Member, Audit Committee of the Reserve Bank of Australia
- Chairman, Reporting Committee of the Australian Institute of Company Directors (AICD)
- Member, NSW Council, AICD
- Member, Advisory Board of Norton Rose Fulbright Australia
- Chairman, Planet Ark Environmental Foundation
- Adjunct Professor, Australian School of Business, University of New South Wales.

Mr Coleman is a resident of New South Wales.

Directors' Report Schedule 1 – Directors' experience and special responsibilities
for the financial year ended 31 March 2015
continued

Patricia A Cross, BSc (Hons) (Georgetown), FAICD (age 55)

Chairman – Board Risk Committee
Member – Board Audit Committee
Member – Board Nominating Committee

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

Experience

Patricia Cross has extensive international financial and banking experience, through senior executive roles with Chase Manhattan Bank and Chase Investment Bank, Banque Nationale de Paris and National Australia Bank, where she was responsible for the Wholesale Banking and Finance Division and a member of the Executive Committee. She has lived and worked in seven different countries.

Mrs Cross has served on a number of listed company boards, including National Australia Bank Limited, JBWere Limited, Qantas Airways, Wesfarmers Limited, AMP Limited and Suncorp-Metway Limited. She was Chairman of Qantas Superannuation Limited and Deputy Chairman of the Transport Accident Commission of Victoria. Mrs Cross has also served on many government bodies and not for profit organisations' boards.

Listed company directorships

(held at any time in the last three years)

– Director, Aviva plc (since October 2013)
– Director, Qantas (from January 2004 to October 2013)
– Director, National Australia Bank (from December 2005 to August 2013).

Other current directorships/appointments

– Chairman, Commonwealth Superannuation Corporation
– Director, Grattan Institute
– Ambassador, Australian Indigenous Education Foundation.

Mrs Cross is a resident of Victoria.

Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD (age 66)

Member – Board Governance and Compliance Committee
Member – Board Nominating Committee
Member – Board Remuneration Committee
Member – Board Risk Committee

Diane Grady joined the Boards of Macquarie Group and Macquarie Bank as an Independent Director in May 2011.

Experience

Diane Grady was a partner at McKinsey & Company where she consulted for over 15 years to clients on strategic, organisational and operational issues related to growth and was a worldwide leader of the firm's Organisation and Change Management practice. She has a Masters of Chinese Studies and worked for three years as a journalist in Asia. She has published research on innovation, corporate governance and gender diversity.

Ms Grady has been a full time independent director of public companies and not-for-profit boards since 1994 and has extensive international experience in a variety of industries. Previous directorships include BlueScope Steel Limited, Woolworths Limited, Goodman Group, Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited and MLC. She also served as a member of the ASIC Business Consultative Panel, the National Investment Council, the Sydney Opera House Trust and was President of Chief Executive Women.

Listed company directorships

(held at any time in the last three years)

– Director, Spotless Group Holdings Limited (since March 2014)
– Director, BlueScope Steel Limited (from May 2002 to February 2013).

Other current directorships/appointments

– Member, McKinsey Advisory Council
– Chair, Ascham School
– Chair, Hunger Project Australia
– Director, Australian Stationery Industries
– Member, NSW Innovation and Productivity Council
– Member, Centre for Ethical Leadership
– Member, Heads over Heels Advisory Council.

Ms Grady is a resident of New South Wales.

Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin, FAIM, FIoD (age 55)

Chairman – Board Governance and Compliance Committee
Member – Board Audit Committee
Member – Board Nominating Committee
Member – Board Risk Committee

Michael Hawker joined the Boards of Macquarie Group and Macquarie Bank as an Independent Director in March 2010.

Experience

Michael Hawker has substantial expertise and experience in the financial services industry including management experience in regulated entities and a deep understanding of risk management. He was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008 and has held senior positions at Westpac and Citibank.

Mr Hawker was also President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, a board member of the Geneva Association and a member of the Financial Sector Advisory Council.

Listed company directorships

(held at any time in the last three years)

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

Other current directorships/appointments

- Chairman, Australian Rugby Union
- Chairman, the George Institute for Global Health
- Member, the George Institute for Global Health (UK).

Mr Hawker is a resident of New South Wales.

Nicola M Wakefield Evans, BJuris/BLaw (UNSW), MAICD (age 54)

Member – Board Audit Committee
Member – Board Governance and Compliance Committee
Member – Board Nominating Committee
Member – Board Risk Committee

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

Experience

Nicola Wakefield Evans has significant Asia-Pacific experience as a corporate finance lawyer and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jaques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors.

She held several key management positions at King & Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner, Practice in Sydney.

Listed company directorships

(held at any time in the last three years)

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

Other current directorships/appointments

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

Ms Wakefield Evans is a resident of New South Wales.

Directors' Report Schedule 1 – Directors' experience and special responsibilities for the financial year ended 31 March 2015 continued

Peter H Warne, BA (Macquarie), FAICD (age 59)

Chairman – Board Remuneration Committee
Member – Board Nominating Committee
Member – Board Risk Committee

Peter Warne joined the Board of Macquarie Group as an Independent Director in August 2007. Mr Warne was appointed as an Independent Director of Macquarie Bank in July 2007 and continues to hold this position.

Experience

Peter Warne has extensive knowledge of, and experience in, financial services and investment banking, through a number of roles at Bankers Trust Australia Limited, including as Head of its Financial Markets Group from 1988 to 1999. Mr Warne was a Director of the Sydney Futures Exchange (SFE) from 1990 to 1999, then from 2000 to 2006. He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006, he became a Director of ASX Limited, a position he still holds.

Listed company directorships

(held at any time in the last three years)

- Chairman, ALE Property Group (since September 2003)
- Chairman, OzForex Group Limited (since September 2013)
- Director, ASX Limited (since July 2006)
- Deputy Chairman, Crowe Horwath Australasia Limited (from September 2008 to January 2015) (Director from May 2007 to January 2015).

Other current directorships/appointments

- Director, New South Wales Treasury Corporation
- Member, Advisory Board of the Australian Office of Financial Management
- Patron, Macquarie University Foundation.

Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience

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

Company Secretary since October 2006

Dennis Leong is an Executive Director of Macquarie and Head of the Group's Corporate Governance Division that is responsible for the Group's company secretarial requirements, general and professional risks insurances and employee equity plans. He has over 21 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 May 2008

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

Nigel Donnelly, BEc LLB (Hons) (Macquarie)

Assistant Company Secretary since October 2008

Nigel Donnelly is a Division Director of Macquarie and has over 15 years experience as a solicitor. He joined Macquarie in April 2006, and was previously a Senior Associate at Mallesons Stephen Jaques (now named King & Wood Mallesons) with a general corporate advisory and corporate governance focus.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Executive summary

During the year, the Board and the BRC have reviewed Macquarie's remuneration framework to ensure it continues to meet its overriding objective of delivering superior company performance over the short and long term, while prudently managing risk. In undertaking this assessment, the Board and the BRC have considered factors including:

- the degree of alignment between staff and shareholders
- the evolving regulatory landscape
- market developments
- feedback from shareholders
- the employment environment
- Macquarie's performance during the year and the performance of each business
- shareholder returns
- the need to balance long term and short term incentives.

The Board is of the view that Macquarie's remuneration approach continues to create a strong alignment of staff and shareholders' interests, while prudently managing risk.

The remuneration framework seeks to attract, motivate and retain exceptional people, while aligning their interests with those of shareholders. It is comprised of fixed remuneration, a profit share scheme, and for Macquarie's most senior executives, the Executive Committee, Performance Share Units (PSUs). The framework should be considered as an integrated whole. The components that make up the integrated remuneration framework are explained below.

Macquarie's remuneration structure emphasises performance-based remuneration, with an appropriate balance between short and longer-term incentives, and an alignment with prudent risk-taking.

Fixed remuneration for senior staff remains low relative to comparable roles in other organisations, although it is sufficient to avoid inappropriate risk-taking. Moreover, it is low as a proportion of overall remuneration. In 2015, fixed remuneration for Macquarie's 13 Executive Committee members comprised approximately eight per cent of total remuneration. The balance remains at risk and is explicitly linked to performance.

Performance-based remuneration in the form of profit share is aligned with company performance. The profit share pool is determined annually using the twin measures of net profit after tax (NPAT) and return on ordinary equity (ROE), measures which are known to be drivers of returns to shareholders. A portion of Macquarie's profit earned accrues to the profit share pool. Once the cost of equity capital is met, an additional portion of excess profit is accrued to the profit share pool. In addition, the NEDs of the Board have the discretion to change the quantum of the profit share pool to reflect internal and external factors if deemed in the interests of Macquarie and shareholders. As has occurred in previous years, not all of the profit share pool has been paid to employees in the current year.

Profit share is allocated to Macquarie's businesses and, in turn, to individuals, based predominantly on performance. Performance criteria vary depending on an individual's role including:

- financial performance
- risk management and compliance
- business leadership
- people leadership including upholding the Code.

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

Performance-based remuneration is delivered in ways that encourage a longer-term perspective and ensure 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. To achieve this outcome, a significant portion of performance-based remuneration is:

- retained and deferred over a long period (for example, the retention rate for the CEO's profit share allocation is 70 per cent, retained for up to seven years). Including PSUs, the effective deferral rate for the CEO is 74 per cent for this year
- delivered in equity
- subject to forfeiture in certain circumstances.

Performance-based remuneration in the form of PSUs are allocated to Executive Committee members based on their performance, using criteria similar to those used for profit share. PSUs vest in equal tranches after three and four years and are exercisable subject to the achievement of two performance hurdles linked to earnings per share (EPS) and ROE, with no retesting.

Other conditions apply that seek to align staff and shareholder interests. All Executive Directors are subject to a minimum shareholding requirement which can be satisfied through the delivery of equity under the current remuneration arrangements. This aligns shareholder and staff interests and provides the strongest incentive to staff to maximise long term profitability and shareholder returns.

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

- shares held to satisfy the minimum shareholding requirement
- deferred and unvested awards to be delivered under the equity plan, the MEREP, including PSUs.

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

Macquarie's remuneration outcomes are aligned to business results and shareholder returns.

Macquarie has delivered strong financial results for shareholders while appropriately managing remuneration for staff. The Board is of the view that the remuneration outcomes for senior executives are appropriately aligned to their businesses' performance, Macquarie's performance and the interests of shareholders.

To demonstrate the link between pay and performance, a comparison of performance measures and executive remuneration outcomes allows shareholders to see how the remuneration for Executive Key Management Personnel (KMP) is aligned with performance. The analysis below shows that CEO remuneration has increased in line with the increase in NPAT and EPS. Remuneration outcomes for other Executive KMP varied according to their individual performance and the performance of their business. Total remuneration for Comparable Executive KMP, including the CEO, has not increased to the same extent as NPAT and EPS, which reflects the way that performance takes a range of factors into consideration.

Comparison of performance measures and executive remuneration measures: FY2014 – FY2015

		2015	2014	Increase/ (Decrease)%
Performance measures				
NPAT	$Am	1,604	1,265	27
Basic EPS	Cents per share	502.3	383.6	31
Ordinary dividends	Cents per share	330.0	260.0	27
Total dividends	Cents per share	330.0	376.0[(1)]	(12)
Return on equity	Per cent	14.0	11.1	
Annual TSR[(2)]	Per cent	38.9	66.0	
Executive remuneration measures				
Total Compensation Expense	$Am	3,891	3,505	11
Compensation Expense to Income ratio	Per cent	41.9	43.1	
Average staff headcount		14,086	13,796	2
Actual staff headcount		14,085	13,913	1
Statutory Remuneration – CEO	$Am	16.50	13.08	26
Statutory Remuneration – Comparable KMP[(3)]	$Am	90.82	76.05	19

(1) Includes the special dividend component of 116 cents per share in relation to the SYD distribution in January 2014.
(2) TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.
(3) Comparable KMP are defined on page 88.

In addition, Macquarie's performance has been strong relative to peers, particularly over the longer-term.

Strong remuneration governance continues to be exercised.

The Board and the BRC remain committed to strong remuneration governance structures and processes. Strict processes are in place to ensure that conflicts of interest are appropriately managed. The BRC makes recommendations to the NEDs on key decisions including the remuneration outcomes for all Executive Committee members.

An independent remuneration review has also been obtained from an independent consultant, Pay Governance, to provide an opinion on the appropriateness of Macquarie's remuneration arrangements.

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

In summary, Macquarie's overall approach to remuneration supports the overarching objective of delivering superior company performance over the short and long term, while prudently managing risk.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Macquarie's remuneration framework

This section explains the objectives and principles of the remuneration system.

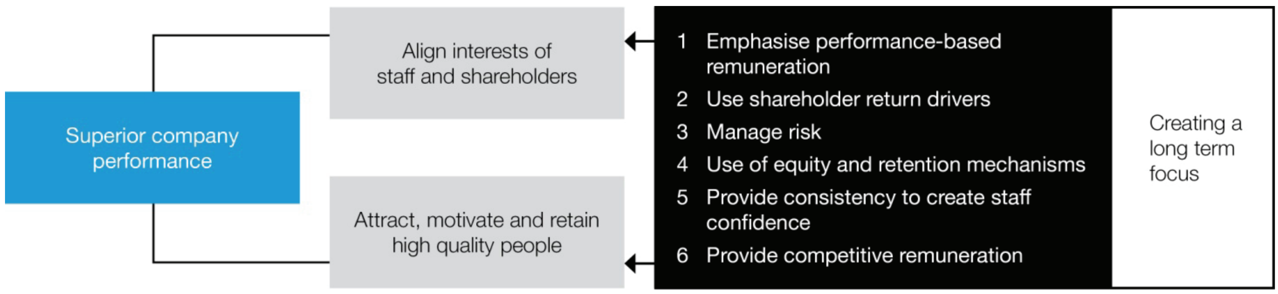
Macquarie's remuneration framework continues to support the overarching objective of delivering superior company performance over the short and long term, while prudently managing risk. Directors recognise that to achieve this objective, Macquarie must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders.

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

- emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk
- linking rewards to the creation of sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital
- structuring remuneration to encourage behaviour that supports Macquarie's risk management framework
- delivering remuneration in a way that encourages a long term perspective and creates alignment with shareholder interests
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives
- remunerating high performing staff appropriately, relative to global peers, so they are attracted to and stay with Macquarie.

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

Overall remuneration objectives and principles



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

Fixed remuneration

Determine fixed remuneration

Fixed remuneration
- modest compared with similar roles in other organisations but sufficient to avoid inappropriate risk-taking
- compared with profit share, generally higher for risk and financial control staff than for front office staff
- reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements.

Performance-based remuneration

Create Pool
– Profit Share
– PSUs

Profit share pool is determined annually by
- allocation of a proportion of the Group's NPAT and ROE over and above the cost of capital
- potential for NEDs to exercise discretion to adjust the size of the pool up or down
- PSU pool reflects the Group's overall performance.

Allocate
– Profit Share
– PSUs

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

Allocate to risk and financial control groups and other support groups
- based on the quality and integrity of control functions and the quality of business support services
- not determined solely with reference to profitability.

Allocate to individuals
- based on individual performance. Performance criteria vary depending on an individual's role including:
  - financial performance
  - risk management and compliance
  - business leadership
  - people leadership including upholding the Code.
- PSUs are only awarded to members of the Executive Committee.

Structure and deliver performance-based remuneration

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

(1) See page 83 for a description.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Macquarie's remuneration structure

This section describes the way in which performance-based remuneration is structured and delivered to manage risk and create shareholder alignment.

Macquarie's remuneration structure emphasises performance-based remuneration, with an appropriate balance between short and longer-term incentives, and an alignment with prudent risk-taking. The Board has discretion to change the remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments.

Profit share retention levels

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

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

Standard retention rates by role

Role	%
CEO	70%
CEO Macquarie Bank	50%
Other Executive Committee members	50% – 60%
Designated Executive Directors(1)	50% – 60%
Other Executive Directors	40% – 60%
Staff other than Executive Directors	25% – 60%(2)

(1) Executive Directors who have a significant management or risk responsibility in the organisation.
(2) Dependent on certain thresholds.

Investment of retained profit share

Executive Directors' retained profit share is invested in a combination of Macquarie shares under the MEREP[3], and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan[4]. The following table shows the current percentage allocation of retained profit share that is invested in these two plans, depending on the Executive Director's role:

Role	Post-2009 DPS Plan (Macquarie-managed fund equity)	MEREP (Macquarie shares)
CEO Macquarie and CEO Macquarie Bank	10%	90%
Executive Committee members with Funds responsibilities	50%	50%
Other Executive Committee members	10%	90%
Executive Directors with Funds responsibilities	50% – 75%	25% – 50%
Other Executive Directors	10% – 20%	80% – 90%

For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity.

Both the MEREP and the DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long term retention arrangements and equity holding requirements. The BRC reviews the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities. In limited circumstances, retained profit share may be allocated to other than the Post-2009 DPS Plan or the MEREP. An example might include investment in funds or products of a specific business group where there is a need to directly align the interests of employees with those of their specific types of clients.

(3) The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 33 to the financial statements in the Financial Report.

(4) The Post-2009 DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities.
Notional returns on retained profit share invested in the Post-2009 DPS Plan may be paid annually to Executive Directors. These amounts are required to be disclosed as remuneration for Executive KMP. The notional returns are calculated based on total shareholder return. If the notional investment of retained profit share results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

Vesting and release of profit share

Retained profit share vests and is released over a period that reflects the scope and nature of an individual's role and responsibilities. The vesting period is established for each retained profit share allocation by the BRC, according to the prevailing market conditions, having regard to regulatory and remuneration trends at the time of allocation. For each year's allocation, once the vesting period has been determined it will remain fixed for that allocation. The BRC has established the following release schedule for retained profit share invested in the Post-2009 DPS Plan and the MEREP:

Role	Release schedule
Executive Committee Members (including the Managing Director and CEOs of Macquarie and Macquarie Bank), Designated Executive Directors	one-fifth in each of years 3–7
Other Executive Directors	one-third in each of years 3–5
Staff other than Executive Directors	one-third in each of years 2–4

Vesting schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in jurisdictions outside Australia to ensure compliance with local regulatory requirements.

Forfeiture of retained profit share (Malus)

Since 2012, the Board or its delegate has had the ability to reduce or eliminate unvested profit share for certain senior employees in certain circumstances (Malus). The Malus provisions were enhanced in FY2015, such that the Board or its delegate may reduce or eliminate in full, the unvested profit share awarded in respect of FY2015 and subsequent years to certain senior employees if it determines that the individual has at any time:

- acted dishonestly (including, but not limited to, by misappropriating funds or deliberately concealing a transaction)
- acted or failed to act in a way that contributed to a breach of a significant legal or significant regulatory requirement relevant to Macquarie
- acted or failed to act in a way that contributed to Macquarie, Macquarie Bank or any Group within Macquarie incurring:
    - significant reputational harm, and/or
    - a significant unexpected financial loss, impairment charge, cost or provision, or
    - acted or failed to act in a way that contributed to MGL or MBL making a material financial restatement.

Each of the above is a Malus Event.

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations. This includes, for example, staff in the EU who are required to comply with the UK Regulators' Remuneration Code (Code Staff). These individuals are subject to additional Malus and clawback provisions under these regulations.

Macquarie has always had, and continues to have, the ability to terminate staff for such circumstances, at which time any unvested profit share would be forfeited in full. The BRC considers whether, and the extent to which, to apply Malus, taking into account local employment laws, the nature and circumstances of the event and any other redress that has been or may be applied.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Early vesting and release of retained profit share

A departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy, disability, serious ill-health or other limited exceptional circumstances. The Board, or its delegate, has discretion to accelerate the vesting of retained profit share under these circumstances (subject to the conditions of early release as set out below).

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

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in connection with strategic business objectives (including in connection with the divestment or internalisation of Macquarie businesses) or when an employee resigns to fulfil a senior full-time role in a governmental organisation or agency. Where such discretion is exercised, the Board or its delegate may impose such other conditions as it considers appropriate. This year discretion has been exercised and retained profit share released for seven executives.

Conditions of early release of retained profit share to departing Executive Directors

In addition to the Malus provisions set out on page 83, the Board or its delegate may reduce or eliminate in full the retained profit share of any departing Executive Director for whom discretion has been exercised to accelerate the vesting of their retained profit share upon termination, if it determines that the Executive Director has at any time committed a Malus Event (as described above) or:

a) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
b) joined a competitor.

Each of the above is a Post Employment Event.

Other than in the case of death or serious incapacitation, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the following table:

	First period	Second period	Third period
Time post departure	Six months	Six months – one year	One year – two years
Unvested retained profit share released	From all but the last two years of employment	From the second year prior to the end of employment	From the year prior to the end of employment
Subject to	No Malus Event or Post Employment Event	No Malus Event or Post Employment Event during First Period **and** no Malus Event or Post Employment Event (a) in Second Period	No Malus Event or Post Employment Event during First Period and No Malus Event or Post Employment Event (a) during Second Period **and** No Malus Event in Third Period

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

Performance Share Units (PSUs)

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

Determination	– The Board approves the value of PSUs to be allocated to Executive Committee members each year.
Allocation	– The allocation to individuals[2] is based on: – role scope and complexity – financial and non-financial performance assessment against a range of factors including financial results, risk management and compliance, business leadership and people leadership – upholding the Code.
Vesting	– Since 2012, PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles (refer pages 86 to 87) – Grants made prior to 2012 vest in three equal tranches after two, three and four years.
Upon leaving Macquarie	To ensure continued alignment with shareholders post termination, in cases of genuine retirement, PSUs continue to vest in accordance with the above vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit PSUs, when an Executive Committee member leaves Macquarie. To date, this discretion has not been exercised.

(1) A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 33 to the financial statements in the Financial Report.
(2) The allocation of PSUs to the CEO, who is an Executive Voting Director, is subject to shareholder approval.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Performance hurdles for PSUs

The PSU hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2015.

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

	EPS CAGR Hurdle	ROE Hurdle
Application to PSU awards	50 per cent	50 per cent
Performance measure	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years).	Relative average annual return on ordinary equity over the vesting period (three to four years) compared with a reference group of global peers[(1)].
Hurdle	Sliding scale applies: – 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent – 100 per cent at EPS CAGR of 12 per cent. For example, if EPS CAGR was 9.75 per cent, 75 per cent of the relevant awards would become exercisable. For awards made prior to 2013, the EPS CAGR hurdle range was 9 per cent to 13 per cent.	Sliding scale applies: – 50 per cent becoming exercisable above the 50th percentile – 100 per cent at the 75th percentile. For example, if ROE achievement was at the 60th percentile, 70 per cent of the relevant awards would become exercisable.
Rationale for hurdles	– ROE and EPS are considered appropriate measures of performance as they drive longer-term company performance and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool – ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors, including market sentiment, over which executives have limited control – ROE and EPS can be substantiated using information that is disclosed in audited financial statements – the use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk taking – the approach is consistent with that advocated by APRA in not using TSR as a measure – being three and four year average measures from 2012 and aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee. Use of an international peer group recognises the extent of Macquarie's internationalisation. At 31 March 2015 approximately 70 per cent of Macquarie's income and approximately 54 per cent of Macquarie's staff were offshore.	

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

Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs at the calendar quarter end immediately before vesting, based on the most recent financial year end results available. If the condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting.

The PSUs which vested in July 2014 comprised the third tranche of those granted in 2010 and the second tranche of those granted in 2011. Both tranches did not become fully exercisable due to the performance hurdles not being fully met. As a result:

	EPS CAGR Hurdle			ROE Hurdle		
PSU Tranche	**Macquarie result (for vesting period)**	**Hurdle**	**Outcome**	**Macquarie result (for vesting period)**	**Hurdle**	**Outcome**
2010 Tranche 3	4.6%	At 9%	0% exercisable	7.9%	> 50th percentile rank	56% exercisable
2011 Tranche 2	10.7%	At 9%	72% exercisable	7.8%	> 50th percentile rank	56% exercisable

PSUs that did not meet performance hurdles expired.

Other features of Macquarie's remuneration structure

Promotion awards

Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on seniority set with reference to an $A value.

Minimum Shareholding requirement

Executive Directors are required to hold a minimum amount of Macquarie shares which is satisfied by the requirements of the profit share retention policy.

Hedging

Macquarie prohibits staff from hedging shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP.

Employment contracts

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

Length of contract	Permanent open-ended
Remuneration review period	1 April to 31 March annually
Profit share participation	Executive Committee members are eligible to be considered for a profit share allocation which ensures that a large part of their remuneration is 'at risk'. Refer to pages 82 to 84 for details.
PSU participation	Executive Committee members are eligible to receive PSUs. Refer to pages 85 to 87 for details.
Termination of employment	Requires no more than four weeks notice(1) by Macquarie or the Executive Committee member.

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

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Alignment of remuneration outcomes to results

This section demonstrates how remuneration outcomes are aligned to Macquarie's results for the year.

Macquarie has delivered strong financial results in FY2015. While NPAT, EPS and ordinary dividends have significantly increased compared with FY2014, total compensation does not reflect the same rate of growth, reflecting Macquarie's focus on cost management. Shareholder returns have also been strong, both over the past year and over the longer-term.

The Board is of the view that the remuneration outcomes for senior executives are appropriately aligned to their businesses' performance, Macquarie's performance and the interests of shareholders.

To demonstrate the link between pay and performance, a comparison of performance measures and executive remuneration outcomes allows shareholders to see how the remuneration for Executive KMP is aligned with performance. The analysis below shows that CEO remuneration has increased in line with the increase in NPAT and EPS. Remuneration outcomes for other Executive KMP varied according to their individual performance and the performance of their business. Total remuneration for Comparable KMP[1], including the CEO, has not increased to the same extent as NPAT, ordinary dividends and EPS, which reflects the way that performance takes a range of factors into consideration.

Comparison of performance measures and executive remuneration measures: FY2014 – FY2015

		2015	2014	Increase/ (Decrease)%
Performance measures				
NPAT	$Am	1,604	1,265	27
Basic EPS	Cents per share	502.3	383.6	31
Ordinary dividends	Cents per share	330.0	260.0	27
Total dividends	Cents per share	330.0	376.0[2]	(12)
Return on equity	Per cent	14.0	11.1	
Annual TSR[3]	Per cent	38.9	66.0	
Executive remuneration measures				
Total Compensation Expense	$Am	3,891	3,505	11
Compensation Expense to Income ratio	Per cent	41.9	43.1	
Average staff headcount		14,086	13,796	2
Actual staff headcount		14,085	13,913	1
Statutory Remuneration – CEO	$Am	16.50	13.08	26
Statutory Remuneration – Comparable KMP	$Am	90.82	76.05	19

(1) Comparable KMP are Executive KMP who were members of the Executive Committee for the full year in both FY2015 and FY2014.
(2) Includes the special dividend component of 116 cents per share in relation to the SYD distribution in January 2014.
(3) TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.

Performance over past 10 years: FY2006–2015

Years ended 31 March	FY15	FY14	FY13	FY12	FY11	FY10	FY09	FY08	FY07	FY06
Income statement										
NPAT attributable to ordinary owners ($A million)	1,604	1,265	851	730	956	1,050	871	1,803	1,463	916
Basic EPS (cents per share)	502.3	383.6	251.2	210.1	282.5	320.2	309.6	670.6	591.6	400.3
ROE										
Return on average ordinary shareholders' funds (% p.a.)	14.0	11.1	7.8	6.8	8.8	10.1	9.9	23.7	28.1	26.0
Total shareholder returns (TSR)										
Dividend – Interim and Final (cents per share)	330	260	200	140	186	186	185	345	315	215
Dividend – Special (cents per share)	–	116[1]	–	–	–	–	–	–	–	–
Share price at 31 Mar ($A)	76.7	57.9	37.2	29.1	36.6	47.3	27.1	52.8	82.8	64.7
Annual TSR (%)	38.9	66.0	34.4	(16.0)	(19.0)	79.6	(44.1)	(33.6)	32.6	40.2
10 Year TSR (%)	162.2									

[1] The special dividend for the year ended 31 March 2014 represented the special dividend component of the SYD Distribution in January 2014. The total distribution including return on capital was 373 cents per share.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Macquarie's performance relative to peers

The analysis below demonstrates that Macquarie has performed well relative to peers on the following key indicators of performance:

- NPAT compound annual growth rate (CAGR) over the short and longer-term (base currency and $US)
- ROE over the short and longer-term
- TSR since listing
- Compensation ratio over the past three years.

The same international investment banking peer group as last year has been used under each heading in the analysis below. The BRC considers these firms to be appropriate peers on the basis that they broadly operate in the same markets and compete for the same people as Macquarie. Nonetheless, comparisons are complicated for the following reasons:

- each peer has a different business mix. Some peers are or have become parts of larger organisations, often with large retail operations which can distort comparisons
- where peer information is published, comparative information may not include a share of central overhead costs
- variations in accounting practices used by comparator organisations. For example, some companies report net revenue before adjusting for impairments, whereas others (including Macquarie) report net revenue after adjusting for impairments
- peers located in different jurisdictions report in different currencies and comparisons do not always reflect the impact of changes in foreign exchange rates
- remuneration delivered as deferred equity is amortised over the vesting period of the equity. Different deferral levels and different vesting periods, therefore, result in different accounting results, even if the underlying quantum of remuneration is the same.

Where appropriate, segment information has been used as disclosed throughout the Remuneration Report. This is particularly relevant where the investment banking segment is part of a larger organisation. Peer information is presented in the same order throughout the Remuneration Report.

Net profit after tax

One of the measures used to compare relative performance is NPAT. The NPAT CAGR is shown in both local currency and a common currency ($US) to reduce the impact of significant changes in foreign exchange rates over the period when comparing the performance of peers from different jurisdictions. Macquarie's performance against peers is above all but one peer over a ten year period in both base currency and $US and is in the upper range of peers over a one year period in base currency.

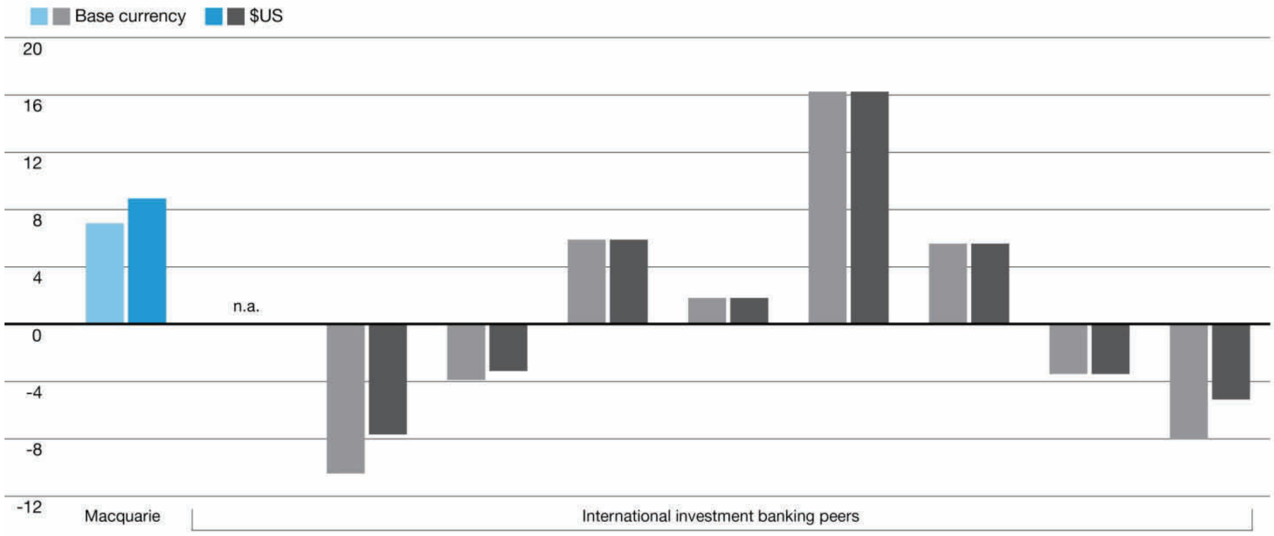
Peer relative growth in NPAT: FY2005-2015[1]

	1 year CAGR Base Currency %	10 year CAGR Base Currency %	1 year CAGR $US %	10 year CAGR $US %
Macquarie	27%	7%	18%	9%
Peer	n.a.	n.a.	n.a.	n.a.
Peer	(19%)	(10%)	(19%)	(8%)
Peer	150%	(4%)	150%	(3%)
Peer	5%	6%	5%	6%
Peer	(35%)	2%	(35%)	2%
Peer	21%	16%	21%	16%
Peer	167%	6%	167%	6%
Peer	19%	(3%)	19%	(3%)
Peer	9%	(8%)	10%	(5%)

Source: Peer underlying data from Annual Reports.

(1) Peers comprise Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., Jefferies, JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG. 'n.a.' is noted where the peer recorded a loss 10 years ago, in the prior year or in the current year.

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



[1] Peers comprise Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., Jefferies, JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG. 'n.a.' is noted where the peer recorded a loss 10 years ago, in the prior year or in the current year.

Return on equity

Macquarie's annual ROE continues to improve, up from 11.1 per cent in FY2014 to 14.0 per cent in FY2015, higher than all but one peer. In addition, Macquarie's 10 year average annual ROE is higher than all but one of its peers.

Peer ROE over 10 years: FY2006–2015[1]

Macquarie versus international investment banking peers

	1 year average %	3 year average %	5 year average %	10 year average %
Macquarie	14.0	11.0	9.7	14.6
Average of Peers	12.1	7.9	8.7	8.4
Peer	1.7	2.5	1.2	5.2
Peer	(0.3)	(0.2)	2.4	11.5
Peer	4.8	4.7	6.6	9.0
Peer	2.7	1.4	3.6	7.2
Peer	11.2	10.9	9.6	16.0
Peer	9.8	9.6	9.8	9.2
Peer	67.4	36.2	33.8	n.a.
Peer	4.9	3.1	4.3	7.4
Peer	7.0	2.9	6.8	1.5

Source: Peer underlying data from Bloomberg and Annual Reports.

[1] Peers comprise Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG.

Directors' Report Schedule 2 – Remuneration Report
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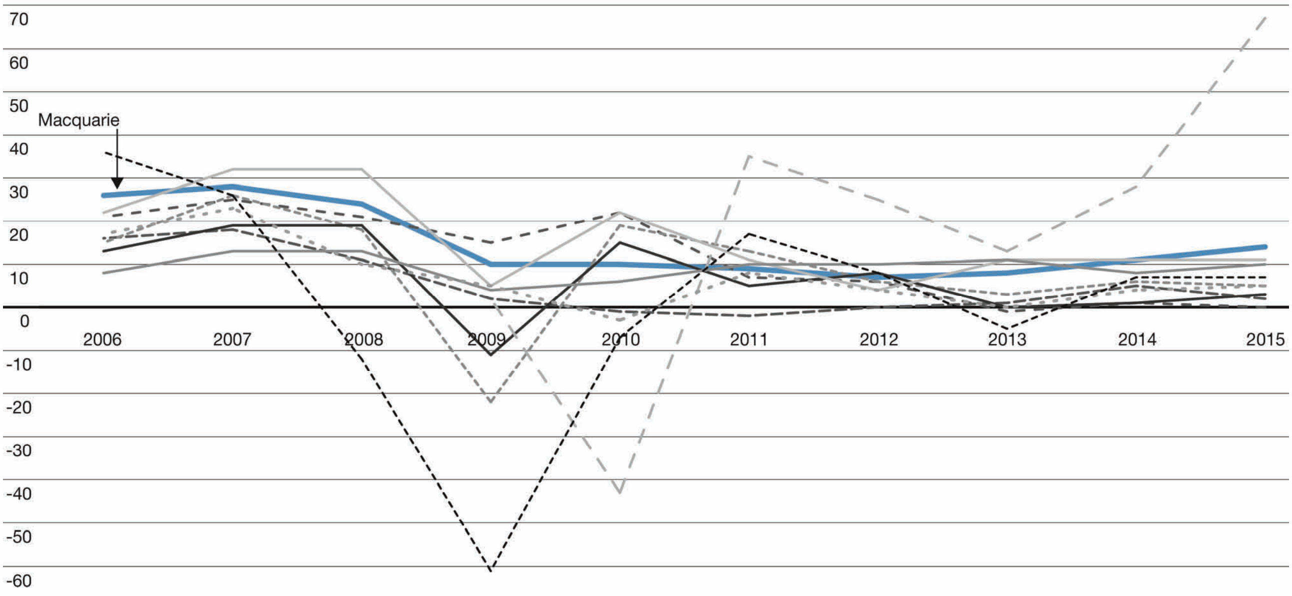
Macquarie's ROE has also exhibited less volatility over a ten year period.

10 year chart of annual ROE
Macquarie versus international investment banking peers[1](%)



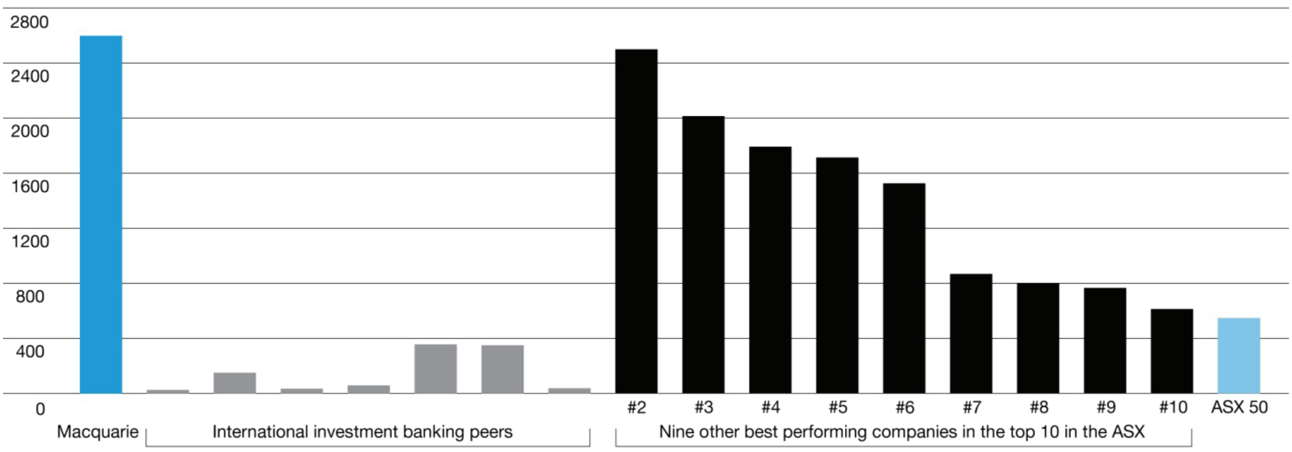
Source: Peer underlying data from Bloomberg and Annual Reports.

(1) Peers comprise Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG.

Total shareholder return

Macquarie's shareholder return over the long term has been strong and significantly higher than international investment banking peers. In addition, TSR since listing is currently ranked the highest of all companies that were in the ASX Top 50 at the time that Macquarie Bank Limited (MBL) listed in July 1996.

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

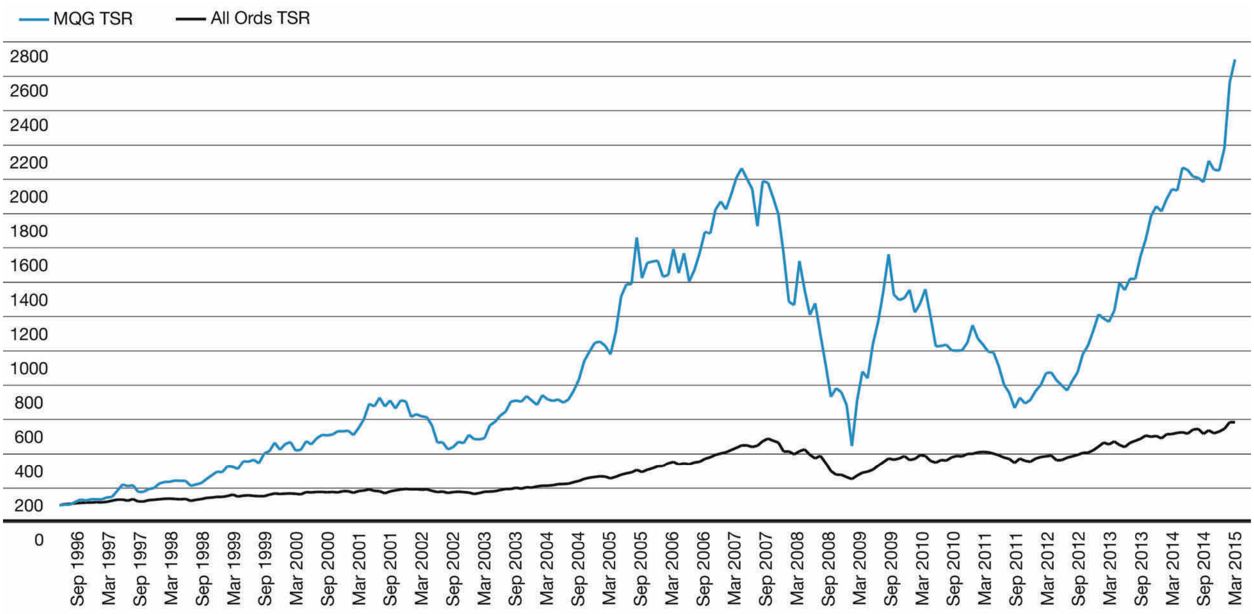


Source: Bloomberg

(1) Peers comprise Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, JP Morgan Chase, Morgan Stanley and UBS AG. Peers which have been included in comparative analysis elsewhere in this Remuneration Report but which have not been continuously listed since Macquarie Bank Limited's date of listing (29 July 1996), or are no longer listed, have been excluded from this chart, i.e. Goldman Sachs, Jefferies and Lazard.

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

Macquarie TSR versus the All Ords(1)
29 July 1996 to 31 March 2015



Source: Bloomberg.

(1) Indexed to 100 on 29 July 1996. The All Ords 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 Ords. Macquarie TSR calculations, here and throughout this Remuneration 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 of Macquarie Group Limited shares on 5 November 2007 onwards.

Directors' Report Schedule 2 – Remuneration Report
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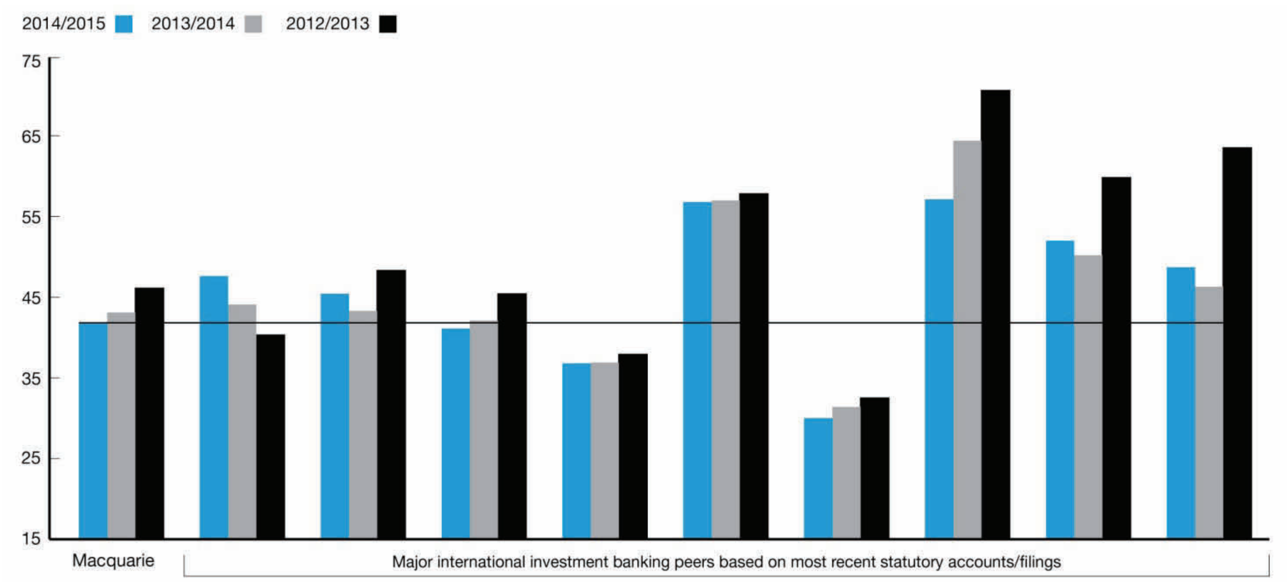
Compensation expense to income ratio

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 as a broad measure of comparative remuneration levels. It is not, however, the basis on which Macquarie's profit share pool is determined.

Macquarie's compensation ratio is compared with that of a group of peers in the following chart. 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 those set out at the beginning of this section.

Notwithstanding these factors, Macquarie's FY2015 ratio of 41.9 per cent is in the lower half of peers.

Compensation ratio: FY2013–2015[1](%)



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

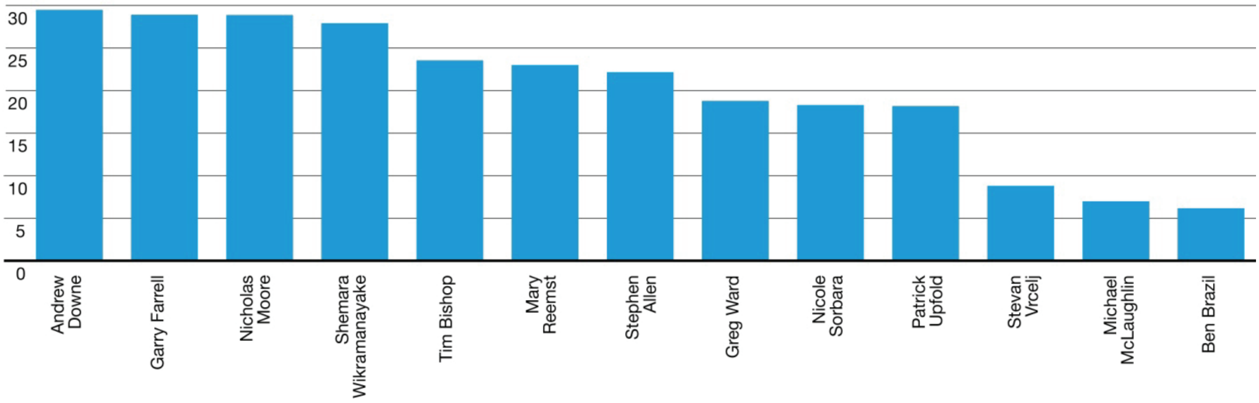
(1) Peers comprise Barclays PLC (Investment Banking segment), Credit Suisse Group AG (Investment Banking segment), Deutsche Bank AG, Goldman Sachs Group Inc., Jefferies Group Inc., JP Morgan Chase (Corporate and Investment Banking segment), Lazard Ltd, Morgan Stanley and UBS AG (Investment Banking segment). In order to show more comparable compensation ratios, impairments have been consistently netted against net revenue in the revised calculations for some peers.

Staff retention

One of the primary goals of Macquarie's remuneration arrangements is to attract, motivate and retain high performing staff. The Board's view is that Macquarie continues to achieve this goal. While director-level voluntary turnover of 7.4 per cent is marginally higher than the prior year, it remains below voluntary turnover across Macquarie overall.

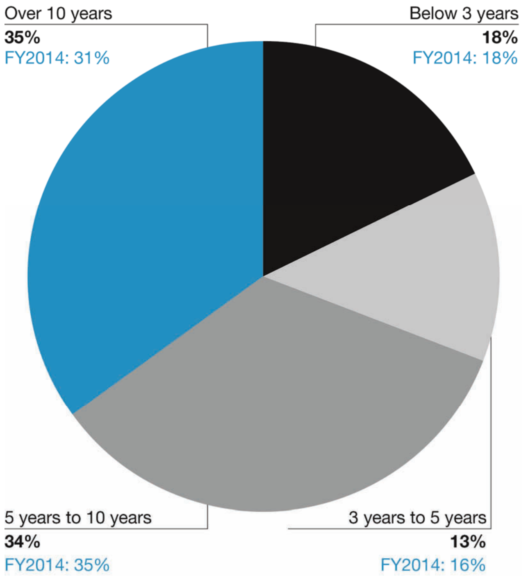
Macquarie continues to have a highly experienced senior management team. The average tenure[(1)] of Macquarie's Executive Committee, including the three new appointees this year, is approximately 20 years.

Tenure of Executive Committee members
Number of years at Macquarie



This depth of experience continues outside of the Executive Committee. As at 31 March 2015, 35 per cent of Director-level staff[(2)] have ten years' experience or more with Macquarie, and a further 34 per cent have between five and ten years' experience with Macquarie.

Directors' tenure as at 31 March 2015



(1) This includes accumulated service at acquired companies, for example Bankers Trust Investment Bank Australia and ING's Asian Equities business.

(2) Directors include all Director-level staff, being Associate Directors, Division Directors and Executive Directors. As at 31 March 2015, there were a total of 3,242 Director-level staff, of whom 330 were Executive Directors.

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Remuneration governance

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

Strong Board oversight

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

The BRC currently comprises five Independent NEDs:

- Peter Warne (Chairman)
- Gary Banks
- Gordon Cairns
- Diane Grady
- Kevin McCann.

The responsibilities of the Committee include reviewing the *Remuneration Policy* for compliance with legal and regulatory requirements and recommending it to the Board for approval. The full responsibilities of the Committee are outlined in their Charter, which is reviewed and approved annually by the Board. A copy of the Charter is available on Macquarie's website at macquarie.com/leadership-corporate-governance

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

The remuneration governance framework requires that remuneration recommendations relating to staff at various levels of seniority be approved at an appropriate level of authority. As part of this, the BRC recommends the remuneration outcomes to the Board for approval for the:

- CEOs of both Macquarie and Macquarie Bank
- Executive Committee members
- Designated Executive Directors
- Senior risk and financial control personnel
- Staff covered under specific regulatory requirements.

As part of its process, towards the end of each financial year, the NEDs meet with the CEO to consider formal documentation that outlines his views on the Group's performance. The Group CEO's presentation includes a wide range of the Group's activities covering the following main areas:

- financial position and performance
- risk management and compliance
- people and culture
- sustainability (planning and investment in the future)
- community.

The Board considers the CEO's performance and progress against all of these topics in determining the CEO's remuneration for the year. Over the course of the year the Board receives regular reports and updates on many of these topics. These are summarised in the CEO's presentation, together with additional information on any particular areas of interest which the Board have identified for further discussion as a part of the review process. A similar process is followed for the CEO of Macquarie Bank.

The Board and the BRC also consider formal documentation for each Executive Committee member which covers financial performance, risk management and compliance, business leadership and people leadership (including upholding the Code).

This information helps the BRC and Board make decisions in relation to remuneration.

In addition, as part of the remuneration process:

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

Independent remuneration review

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

The only service that Pay Governance provides to Macquarie is executive compensation consulting to the BRC. This year, Pay Governance considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The cost of the Pay Governance Review was approximately $US135,000.

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

- the agreement for services was authorised by the Chairman of the BRC under delegated authority on behalf of Macquarie
- the Pay Governance Review was provided by Pay Governance directly to the BRC
- Pay Governance held meetings with the BRC Chairman
- in relation to the Pay Governance Review, no Executive KMP had separate, direct contact with Pay Governance.

Pay Governance's findings included that:

- the objectives of Macquarie's remuneration system are similar to those cited by other leading global investment banks, including the need to drive company performance over the short and longer-term, align the interests of staff and shareholders, the importance of attracting and retaining the right talent, and structuring and delivering remuneration to not encourage excessive risks
- Macquarie's remuneration components support its remuneration objectives and principles and are very much in line with practices at peer global investment banks.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Non-Executive Director remuneration

Macquarie's remuneration approach ensures that the NEDs are appropriately remunerated. Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, differ from the arrangements applicable to Executives.

Non-Executive Director remuneration policy

The overall objective of Macquarie's NED remuneration policy is to ensure that NEDs are remunerated appropriately. It is achieved by:

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

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

The CEO is not remunerated separately for acting as an Executive Voting Director.

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

All NEDs of Macquarie Group Limited (Macquarie) are also NEDs of Macquarie Bank Limited (Macquarie Bank). This policy governs the remuneration of NEDs of both Macquarie and Macquarie Bank.

Board and Committee fees

NEDs are remunerated via Board and Committee fees which are reviewed annually. Per diem fees may also be paid from time to time for approved additional work. Macquarie's approach to NED remuneration is to set Board and Board Committee fees reflecting the time commitment and responsibilities involved, taking into account market rates for relevant Australian financial organisations and consistent with market trends. During FY2015, the Board determined that Board member base fees be increased for both Macquarie and Macquarie Bank to $A175,000 (from $A165,000) and $A70,000 (from $A65,000) respectively and that Committee fees should remain unchanged. Board member base fees were last increased in 2010.

Macquarie and Macquarie Bank Fees

	Macquarie fees		Macquarie Bank fees		Total fees	
	$A Chairman	$A Member	$A Chairman	$A Member	$A Chairman(1)	$A Member
Board	585,000	175,000	240,000	70,000	825,000	245,000
Board Risk Committee (BRiC)(2)	70,000	30,000	n.a.	n.a.	70,000	30,000
Board Audit Committee (BAC)(2)	70,000	30,000	n.a.	n.a.	70,000	30,000
Board Remuneration Committee (BRC)(2)	70,000	30,000	n.a.	n.a.	70,000	30,000
Board Governance and Compliance Committee (BGCC)(2)	57,500	25,000	n.a.	n.a.	57,500	25,000
Board Nominating Committee (BNC)(2)	n.a.	8,000	n.a.	n.a.	n.a.	8,000

(1) The Chairman is a member of the BRiC, BRC and is Chairman of the BNC. He also normally attends BAC and BGCC meetings by invitation. The Chairman is not paid separate Committee fees.

(2) Macquarie has five standing Board committees. The Macquarie BAC is a joint committee of Macquarie and Macquarie Bank, and the BRiC became a joint committee of Macquarie and Macquarie Bank effective from 1 January 2015. The BRC also advises both Boards.

NEDs may elect to receive their remuneration, in part, in the form of superannuation contributions.

Information on the frequency of Board and Committee meetings is included on pages 68 and 69 of the Directors' Report.

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

Minimum shareholding requirement for Non-Executive Directors

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

Under the minimum shareholding requirement, NEDs are required to acquire progressively a minimum of 6,000 shares in Macquarie over a period of five years from the date of their appointment. During the year, the Board introduced a minimum shareholding requirement for the Chairman of 12,000 Macquarie shares to be achieved within three years of becoming Chairman.

Under Macquarie's *Trading Policy*, NEDs are prohibited from hedging shares held to meet this minimum Macquarie shareholding requirement. Each NED's current holding of Macquarie ordinary shares is included on page 67 of the Directors' Report.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Appendices: Key Management Personnel (KMP) disclosures

Appendix 1: KMP

KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of Macquarie and its controlled entities (together making Executive KMP) and NEDs. Macquarie's NEDs are required by the Act to be included as KMP for the purposes of the disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of 'management'. The table reflects KMP movements during FY2015 and FY2014. The key changes included:

Non-Executive Directors

- G.M Cairns was appointed to the Board effective from 1 November 2014
- P.M Kirby retired from the Board on 24 July 2014
- H.M. Nugent AO retired from the Board on 24 July 2014
- N.M. Wakefield Evans was appointed to the Board effective from 7 February 2014
- J.R. Niland AC retired from the Board on 31 December 2013
- P.A. Cross was appointed to the Board effective from 7 August 2013
- G.R. Banks AO was appointed to the Board effective from 1 August 2013
- C.B. Livingstone AO retired from the Board on 25 July 2013.

Executives

- B.A. Brazil was appointed to the Executive Committee effective from 1 July 2014
- M.J. Reemst was appointed to the Executive Committee effective from 1 July 2014
- P.C. Upfold was appointed to the Executive Committee effective from 1 July 2014
- P.J. Maher ceased to be a member of the Executive Committee on 3 May 2013.

Name	Position	Term as KMP 2015	Term as KMP 2014
Executive Voting Director			
N.W. Moore[(1)]	CEO	Full year	Full year
Non-Executive Directors			
G.R. Banks AO	Independent Director	Full year	Part year
G.M. Cairns	Independent Director	Part year	–
M.J. Coleman	Independent Director	Full year	Full year
P.A. Cross	Independent Director	Full year	Part year
D.J. Grady AM	Independent Director	Full year	Full year
M.J. Hawker AM	Independent Director	Full year	Full year
P.M. Kirby	Former Independent Director	Part year	Full year
C.B. Livingstone AO	Former Independent Director	–	Part year
H.K. McCann AM	Independent Chairman	Full year	Full year
J.R. Niland AC	Former Independent Director	–	Part year
H.M. Nugent AO	Former Independent Director	Part year	Full year
N.M. Wakefield Evans	Independent Director	Full year	Part Year
P.H. Warne	Independent Director	Full year	Full year

(1) Members of Macquarie's Executive Committee as at 8 May 2015.

Name	Position	Term as KMP 2015	Term as KMP 2014
Executives			
S.D. Allen[1]	CRO, Head of RMG	Full year	Full year
T.C. Bishop[1]	Head of Macquarie Capital	Full year	Full year
B.A. Brazil[1]	Co-Head of CAF	Part Year	–
A.J. Downe[1]	Head of CFM	Full year	Full year
G.A. Farrell[1]	Co-Head of CAF	Full year	Full year
P.J. Maher	Former Head of BFS	–	Part year
M. McLaughlin[1]	Country Head, United States of America	Full year	Full year
M.J. Reemst[1]	Macquarie Bank CEO	Part year	–
N. Sorbara[1]	COO, Head of COG	Full year	Full year
P.C. Upfold[1]	CFO, Head of FMG	Part year	–
S. Vrcelj[1]	Head of MSG	Full year	Full year
G.C. Ward[1]	Deputy Managing Director and Head of BFS	Full year	Full year
S. Wikramanayake[1]	Head of MAM	Full year	Full year

[1] Members of Macquarie's Executive Committee as at 8 May 2015.

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

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Appendix 2: Statutory remuneration disclosures

Executive remuneration

The remuneration arrangements for all of the persons listed as Executive Voting Directors or Executives are described on pages 80 to 87.

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2015 and 31 March 2014, only include remuneration relating to the portion of the relevant periods that each individual was an Executive KMP. Hence, comparable executive remuneration is confined to those who were Executive KMP for the full year in both FY2015 and FY2014.

While RSUs and DSUs, and PSUs (for Executive Committee members), in respect of FY2015 will be granted during FY2016, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2014. The expense is estimated using Macquarie's share price as at 31 March 2015 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.61 per cent; expected vest dates of PSU: 1 July 2018 and 1 July 2019; and a dividend yield of 4.76 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 RSU, DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

As explained on page 82, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors and are included in the relevant remuneration disclosures below as part of Long Term Employee Benefits (refer to the 'Earnings on prior year restricted profit share' column in the table on pages 104 and 105). When these amounts are negative, they are deducted from Long Term Employee Benefits remuneration in the same column.

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

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Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

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

			Short Term Employee Benefits		
			Salary (including superannuation) $A	Performance related remuneration(1) $A	Total short term employee benefits $A
Executive Voting Director					
N.W. Moore(6)	Managing Director and CEO	**2015**	**818,948**	**4,774,084**	**5,593,032**
		2014	818,731	2,995,900	3,814,631
Other Executives					
S.D. Allen	CRO, Head of RMG	**2015**	**770,775**	**2,415,459**	**3,186,234**
		2014	770,571	1,690,987	2,461,558
T.C. Bishop	Head of MacCap	**2015**	**722,602**	**2,330,207**	**3,052,809**
		2014	722,410	1,350,454	2,072,864
A.J. Downe(7)	Head of CFM	**2015**	**864,894**	**5,158,731**	**6,023,625**
		2014	831,520	4,047,673	4,879,193
G.A. Farrell	Co-Head of CAF	**2015**	**722,602**	**4,025,765**	**4,748,367**
		2014	722,410	2,569,494	3,291,904
M. McLaughlin(7)	Country Head, United States of America	**2015**	**685,468**	**1,300,000**	**1,985,468**
		2014	644,045	1,913,885	2,557,930
N. Sorbara	COO, Head of COG	**2015**	**698,837**	**1,657,668**	**2,356,505**
		2014	698,651	1,129,705	1,828,356
S. Vrcelj	Head of MSG	**2015**	**722,602**	**757,791**	**1,480,393**
		2014	722,410	683,624	1,406,034
G.C. Ward	Deputy Managing Director and Head of BFS	**2015**	**770,775**	**2,368,097**	**3,138,872**
		2014	770,571	1,801,623	2,572,194
S. Wikramanayake	Head of MAM	**2015**	**722,602**	**6,867,481**	**7,590,083**
		2014	722,410	4,777,592	5,500,002
Total Remuneration – Comparable Executive KMP		**2015**	**7,500,105**	**31,655,283**	**39,155,388**
		2014	7,423,729	22,960,937	30,384,666
New Executives					
B. Brazil(8)	Co-Head of CAF	**2015**	**547,052**	**5,722,938**	**6,269,990**
		2014	–	–	–
M. Reemst(8)	Macquarie Bank Limited Managing Director and CEO	**2015**	**437,642**	**1,003,884**	**1,441,526**
		2014	–	–	–
P. Upfold(8)	CFO, Head of FMG	**2015**	**583,522**	**1,792,649**	**2,376,171**
		2014	–	–	–
Former Executives					
P.J. Maher(9)	Former Head of BFS	**2015**	–	–	–
		2014	65,967	58,599	124,566
Total Remuneration – Executive KMP (including new and former executives)		**2015**	**9,068,321**	**40,174,754**	**49,243,075**
		2014	7,489,696	23,019,536	30,509,232

Long Term Employee Benefits			Share Based Payments				
Restricted profit share[2]	Earnings on prior year restricted profit share[3]	Total long term employee benefits	Equity awards including shares[4]	PSUs[5]	Total share-based payments	Total Remuneration	Percentage of remuneration that consists of PSUs
$A	$A	$A	$A	$A	$A	$A	%
1,113,953	**1,293,714**	**2,407,667**	**5,834,545**	**2,659,826**	**8,494,371**	**16,495,070**	**16.12**
1,398,087	1,358,788	2,756,875	4,733,125	1,775,801	6,508,926	13,080,432	13.58
241,546	**368,151**	**609,697**	**1,500,786**	**1,185,702**	**2,686,488**	**6,482,419**	**18.29**
338,197	388,834	727,031	1,478,068	843,770	2,321,838	5,510,427	15.31
349,531	**659,255**	**1,008,786**	**2,101,850**	**1,331,880**	**3,433,730**	**7,495,325**	**17.77**
202,568	1,310,573	1,513,141	2,183,282	1,042,387	3,225,669	6,811,674	15.30
515,873	**2,360,993**	**2,876,866**	**3,598,335**	**1,894,330**	**5,492,665**	**14,393,156**	**13.16**
404,767	2,667,755	3,072,522	3,186,866	1,187,740	4,374,606	12,326,321	9.64
402,576	**517,494**	**920,070**	**2,447,770**	**1,853,795**	**4,301,565**	**9,970,002**	**18.59**
256,949	560,092	817,041	1,954,739	1,672,512	3,627,251	7,736,196	21.62
130,000	**204,421**	**334,421**	**1,872,444**	**406,290**	**2,278,734**	**4,598,623**	**8.84**
956,943	172,969	1,129,912	2,042,615	344,311	2,386,926	6,074,768	5.67
165,767	**85,568**	**251,335**	**708,258**	**1,049,350**	**1,757,608**	**4,365,448**	**24.04**
225,941	40,654	266,595	493,978	695,132	1,189,110	3,284,061	21.17
113,669	**78,507**	**192,176**	**865,547**	**1,133,485**	**1,999,032**	**3,671,601**	**30.87**
102,544	98,341	200,885	867,314	799,441	1,666,755	3,273,674	24.42
236,810	**372,864**	**609,674**	**1,712,133**	**1,593,651**	**3,305,784**	**7,054,330**	**22.59**
360,325	379,934	740,259	1,516,382	1,054,302	2,570,684	5,883,137	17.92
3,433,741	**1,478,785**	**4,912,526**	**1,886,653**	**1,902,080**	**3,788,733**	**16,291,342**	**11.68**
2,388,797	1,163,498	3,552,295	1,389,298	1,627,001	3,016,299	12,068,596	13.48
6,703,466	**7,419,752**	**14,123,218**	**22,528,321**	**15,010,389**	**37,538,710**	**90,817,316**	
6,635,118	8,141,438	14,776,556	19,845,667	11,042,397	30,888,064	76,049,286	
572,294	**344,278**	**916,572**	**3,108,931**	**380,011**	**3,488,942**	**10,675,504**	**3.56**
–	–	–	–	–	–	–	–
100,388	**153,561**	**253,949**	**595,632**	**283,891**	**879,523**	**2,574,998**	**11.02**
–	–	–	–	–	–	–	–
179,265	**79,903**	**259,168**	**861,986**	**283,891**	**1,145,877**	**3,781,216**	**7.51**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
5,860	14,534	20,394	87,401	8,732	96,133	241,093	3.62
7,555,413	**7,997,494**	**15,552,907**	**27,094,870**	**15,958,182**	**43,053,052**	**107,849,034**	
6,640,978	8,155,972	14,796,950	19,933,068	11,051,129	30,984,197	76,290,379	

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Notes to the statutory remuneration disclosures

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

(2) The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS Plan).

(3) The earnings on restricted profit share as described on page 82.

(4) The current year expense for retained profit share which is invested in Macquarie shares under the MEREP as described on page 82. This is recognised as an expense over the respective vesting periods as described on pages 83 and 102.

(5) The current year expense for PSUs which is recognised over the vesting period as described on pages 85 and 102. Adjustments were made during the current and prior year to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met, or are not expected to be met.

Notes on individuals

(6) Mr Moore's FY2015 statutory remuneration includes $A6 million that relates to prior year equity awards that have been previously disclosed and approved by shareholders. In future years it is likely, subject to performance, there will also be an amount that relates to equity awards in respect of years 2000-2014 that have previously been disclosed and approved by shareholders.

(7) Mr Downe and Mr McLaughlin are paid in $SG and $US respectively. They have not received a base remuneration increase during the year. The base salary for FY2015 differs to FY2014 due to exchange rate movements.

(8) Mr Brazil, Ms Reemst and Mr Upfold were appointed to the Executive Committee effective from 1 July 2014.

(9) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013.

Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as NEDs are described on pages 98 to 99 of the Remuneration Report:

		Directors Fees $A	Other Benefits[1] $A	Total Compensation $A
G.R. Banks[2]	**2015**	**307,917**	**–**	**307,917**
	2014	193,333	–	193,333
G.M. Cairns[3]	**2015**	**130,417**	**–**	**130,417**
	2014	–	–	–
M.J. Coleman[4]	**2015**	**372,917**	**14,400**	**387,317**
	2014	327,728	12,900	340,628
P.A. Cross[5]	**2015**	**365,417**	**–**	**365,417**
	2014	222,473	–	222,473
D.J. Grady[6]	**2015**	**332,917**	**–**	**332,917**
	2014	304,583	–	304,583
M.J. Hawker	**2015**	**366,750**	**–**	**366,750**
	2014	328,587	–	328,587
P.M. Kirby[7]	**2015**	**101,223**	**–**	**101,223**
	2014	315,000	–	315,000
C.B. Livingstone[8]	**2015**	**–**	**–**	**–**
	2014	115,145	–	115,145
H.K. McCann	**2015**	**825,000**	**–**	**825,000**
	2014	825,000	–	825,000
J.R. Niland[9]	**2015**	**–**	**–**	**–**
	2014	260,625	–	260,625
H.M. Nugent[10]	**2015**	**107,274**	**13,500**	**120,774**
	2014	338,000	38,500	376,500
N.M. Wakefield Evans[11]	**2015**	**327,917**	**–**	**327,917**
	2014	40,774	–	40,774
P.H. Warne[12]	**2015**	**336,669**	**–**	**336,669**
	2014	327,167	4,500	331,667
Total Remuneration – Non-Executive KMP	**2015**	**3,574,418**	**27,900**	**3,602,318**
	2014	3,598,415	55,900	3,654,315

(1) Other benefits for NEDs include due diligence committee fees paid to Mr Coleman of $A14,400 (FY2014: $A12,900); BRC related per diem fees for Dr Nugent of $A13,500 for approved additional work (FY2014: $A34,000) and per diem fees of $A4,500 paid to Dr Nugent and Mr Warne in FY2014 for additional work related to the BNC.

(2) Mr Banks joined the BNC and BRC, and ceased to be a member of the BAC, on 1 June 2014.

(3) Mr Cairns was appointed to the Macquarie Group and Macquarie Bank Boards, the BNC, BRC and the BRiC effective from 1 November 2014.

(4) Mr Coleman joined the BNC effective from 1 June 2014.

(5) Mrs Cross joined the BNC effective from 1 June 2014, and ceased to be a member of the BRC on 1 November 2014.

(6) Ms Grady joined the BNC effective from 1 June 2014.

(7) Mr Kirby joined the BNC effective from 1 June 2014, and retired from the MGL and MBL Boards on 24 July 2014.

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

(9) Dr Niland retired from the MGL and MBL Boards on 31 December 2013.

(10) Dr Nugent retired from the MGL and MBL Boards on 24 July 2014.

(11) Ms Wakefield Evans joined the BNC and BAC effective from 1 June 2014.

(12) Mr Warne was appointed Chairman of the BRC effective from 25 July 2014.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Appendix 3: Share disclosures

Shareholdings of Key Management Personnel and their related parties

The following tables set out details of fully paid ordinary shares of Macquarie held during the financial year by KMP including their related parties.

For the financial year ended 31 March 2015

Name and position	Number of shares held at 1 April 2014[(1)]	Shares received on withdrawal from the MEREP	Other changes[(2)]	Number of shares held at 31 March 2015[(3)]
Executive Voting Director				
N.W. Moore	1,455,517	156,297	–	1,611,814
Non-Executive Directors				
H.K. McCann	12,728	–	1,136	13,864
G.R. Banks	1,416	–	1,500	2,916
G.M. Cairns[(4)]	4,484	–	136	4,620
M.J. Coleman[(5)]	6,343	–	2,080	8,423
P.A. Cross	3,936	–	3,700	7,636
D.J. Grady	3,878	–	2,731	6,609
M.J. Hawker	10,009	–	1,272	11,281
P.M. Kirby[(6)]	23,913	–	–	23,913
H.M. Nugent[(6)]	19,987	–	–	19,987
N.M. Wakefield Evans	–	–	2,636	2,636
P.H. Warne	14,933	–	–	14,933
Executives				
S.D. Allen	17,123	46,125	(40,000)	23,248
T.C. Bishop	15,492	61,804	(61,804)	15,492
B.A. Brazil[(7)]	8,954	15,437	–	24,391
A.J. Downe	28,594	70,814	(70,814)	28,594
G.A. Farrell	–	45,706	(45,706)	–
M. McLaughlin	–	48,861	(48,861)	–
M.J. Reemst[(7)]	10,902	10,060	(10,060)	10,902
N. Sorbara	9,384	6,445	(6,445)	9,384
P.C. Upfold[(7)]	19,456	18,285	969	38,710
S. Vrcelj	–	40,757	(40,757)	–
G.C. Ward	–	47,755	(47,755)	–
S. Wikramanayake	355,442	39,177	–	394,619

(1) Or date of appointment if later.
(2) Includes on-market acquisitions and disposals.
(3) Or date of resignation/retirement if earlier.
(4) Mr Cairns was appointed to the Board effective from 1 November 2014. The opening balance on 1 April 2014 represents his holdings at the date of appointment.
(5) A related party of Mr Coleman holds RSU awards, some of which vested during the year. Mr Coleman does not influence any investment decisions over, nor does he benefit from, this holding.
(6) Mr Kirby and Dr Nugent retired from the Board on 24 July 2014. The closing balance at 31 March 2015 represents their holdings at the date of retirement from the Board.
(7) Mr Brazil, Ms Reemst and Mr Upfold were appointed to the Executive Committee effective from 1 July 2014. The opening balance at 1 April 2014 represents their holdings at the date of appointment.

RSU Awards to KMP

The following tables set out details of the RSU awards associated with Macquarie shares granted to Executive KMP. Grants made to Executive KMP prior to their joining the Executive Committee are not disclosed. PSUs are disclosed in a separate table.

A significant portion of an Executive KMP's retained profit share is invested in Macquarie equity, delivered as RSUs. There have been no alterations to the terms or conditions of the above grants since the grant date. RSU awards are subject to forfeiture as set out on page 83. The value of the grants at vesting could vary significantly as they are dependent on the Macquarie share price at the time of vesting. Retention rates, the vesting profile and service and performance criteria for the current year are set out on pages 82 and 83. RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. For example, RSUs granted in August 2014 relate to the CEO's performance in FY2014. No awards were forfeited during the year.

Name and position	RSU awards granted to date(1) (2)	Grant date	Number vested during the year(3)(4)
Executive Voting Directors			
N.W. Moore	117,102	15-Aug-14	–
	92,048	15-Aug-13	–
	133,805	15-Aug-12	–
	144,026	15-Aug-11	28,805
	100,625	13-Aug-10	19,888
	454,682	3-Mar-10	65,938
Executives			
S.D. Allen(5)	29,934	25-Jun-14	–
	27,120	25-Jun-13	–
	41,150	7-Jun-12	–
	37,902	20-Jun-11	9,329
	13,385	15-Feb-11	13,385
	25,867	30-Jun-10	4,288
	109,713	3-Mar-10	4,604
T.C. Bishop(6)	37,947	25-Jun-14	–
	45,305	25-Jun-13	–
	31,361	7-Jun-12	–
	58,864	20-Jun-11	30,460
	5,509	15-Apr-11	1,088
A.J. Downe	75,152	25-Jun-14	–
	58,182	25-Jun-13	–
	95,575	7-Jun-12	–
	82,233	20-Jun-11	16,446
	93,557	30-Jun-10	18,491
	78,150	3-Mar-10	15,266
G.A. Farrell	48,496	25-Jun-14	–
	46,229	25-Jun-13	–
	88,108	7-Jun-12	–
	57,259	20-Jun-11	11,451
M. McLaughlin	25,321	25-Jun-14	–
	28,490	25-Jun-13	–
	14,908	7-Jun-12	–
N. Sorbara	17,105	25-Jun-14	–
	12,327	25-Jun-13	–
S. Vrcelj	18,792	25-Jun-14	–
	52,872	20-Jun-11	10,574

Continued on the following page.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Name and position	RSU awards granted to date[1] [2]	Grant date	Number vested during the year[3][4]
G.C. Ward	31,696	25-Jun-14	–
	31,229	25-Jun-13	–
	46,460	7-Jun-12	–
	43,316	20-Jun-11	8,663
	36,591	30-Jun-10	7,231
	90,110	3-Mar-10	14,435
S. Wikramanayake[7]	47,019	25-Jun-14	–
	35,957	25-Jun-13	–
	58,075	7-Jun-12	–
	35,245	20-Jun-11	15,263
	13,605	30-Jun-10	–
	66,611	3-Mar-10	4,169

(1) Or during the period that the Executive was a KMP.
(2) On 23 December 2013, Macquarie consolidated its shares through the conversion of one ordinary share into 0.9438 ordinary shares, including for shares held in the MEREP. The above table shows the number of RSUs granted prior to that date adjusted for the impact of the consolidation.
(3) RSUs vesting during the current financial year in respect of grants made prior to Executives becoming a KMP are not disclosed.
(4) The number of RSUs that vested during the year includes the impact of the transitional remuneration arrangements that were put in place in 2009 when shareholders approved the establishment of the MEREP.
(5) As at 31 March 2015, due to a change in employment jurisdiction, 60,094 awards are held outside the MEREP and Mr Allen does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.
(6) As at 31 March 2015, due to a change in employment jurisdiction, 54,129 awards are held outside the MEREP and Mr Bishop does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.
(7) As at 31 March 2015, due to a change in employment jurisdiction, 36,433 awards are held outside the MEREP and Ms Wikramanayake does not have a legal or beneficial interest in the underlying shares. However, these awards have the same economic benefits as an RSU award held in the MEREP.

PSU Awards to KMP

The following tables set out details of PSU awards granted to Executive KMP. PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. For example, PSUs granted in August 2014 relate to the Executive KMP's performance in FY2014.

	Granted to date			Forfeited/Lapsed during the financial year(2)(3)			Exercised during the financial year(3)	
Name and position	Number(1)	Date	Value $A(1)	Number	%	Value $A(4)	Number exercised	Value $A(5)
Executive Voting Director								
N.W. Moore	84,920	15-Aug-14	4,067,668	–	–	–	–	–
	78,017	15-Aug-13	3,223,662	–	–	–	–	–
	113,886	15-Aug-12	2,495,242	–	–	–	–	–
	153,988	15-Aug-11	3,216,809	18,197	11%	1,085,087	32,133	1,824,512
	106,198	13-Aug-10	3,677,637	24,515	23%	1,461,829	9,533	538,900
Executives								
S.D. Allen	36,191	15-Aug 14	1,733,549	–	–	–	–	–
	33,157	15-Aug-13	1,370,047	–	–	–	–	–
	49,411	15-Aug-12	1,082,595	–	–	–	–	–
	56,956	15-Aug-11	1,189,811	6,731	11%	401,370	11,885	696,699
	29,346	13-Aug-10	1,016,252	6,776	23%	404,053	2,634	154,405
T.C. Bishop	43,315	15-Aug-14	2,074,789	–	–	–	–	–
	39,895	15-Aug-13	1,648,462	–	–	–	–	–
	25,308	15-Aug-12	554,499	–	–	–	–	–
	68,645	15-Aug-11	1,433,994	8,112	11%	483,719	14,324	838,351
A.J. Downe	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,193	15-Aug-13	2,197,935	–	–	–	–	–
	101,232	15-Aug-12	2,217,993	–	–	–	–	–
	109,461	15-Aug-11	2,286,614	12,936	11%	771,374	11,841	676,202
	97,702	13-Aug-10	3,383,420	22,554	23%	1,344,895	8,770	498,654
G.A. Farrell	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,194	15-Aug-13	2,197,976	–	–	–	–	–
	92,796	15-Aug-12	2,033,160	–	–	–	–	–
	75,652	15-Aug-11	1,580,370	8,989	11%	536,014	22,834	1,345,609
M. McLaughlin	13,393	15-Aug-14	641,525	–	–	–	–	–
	12,412	15-Aug-13	512,864	–	–	–	–	–
	15,064	15-Aug-12	330,053	–	–	–	–	–
N. Sorbara	36,191	15-Aug-14	1,733,549	–	–	–	–	–
	33,158	15-Aug-13	1,370,088	–	–	–	–	–
S. Vrcelj(6)	38,470	15-Aug-14	1,842,713	–	–	–	–	–
	35,463	15-Aug-13	1,383,005	–	–	–	–	–
	50,216	15-Aug-11	1,049,012	5,935	11%	353,904	10,478	609,847
G.C. Ward	49,584	15-Aug-14	2,375,074	–	–	–	–	–
	45,569	15-Aug-13	1,882,911	–	–	–	–	–
	55,436	15-Aug-12	1,214,603	–	–	–	–	–
	64,935	15-Aug-11	1,356,492	7,674	11%	457,601	13,549	791,730
	43,187	13-Aug-10	1,495,566	9,970	23%	594,511	3,877	226,511
S. Wikramanayake	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,193	15-Aug-13	2,197,935	–	–	–	–	–
	110,270	15-Aug-12	2,416,016	–	–	–	–	–
	84,106	15-Aug-11	1,756,974	9,940	11%	592,722	17,549	1,016,087
	24,461	13-Aug-10	847,084	5,647	23%	336,731	2,196	126,962

The notes to this table are on the following page.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

(1) On 23 December 2013, Macquarie consolidated its shares through the conversion of one ordinary share into 0.9438 ordinary shares, including for shares held in the MEREP. The above table shows the number of PSUs granted prior to that date adjusted for the impact of the consolidation. The value is based on the fair value per share at grant date multiplied by the adjusted number of awards.

(2) Performance hurdles for PSU awards issued on or after 13 August 2010 and vesting at 1 July 2014 were partially achieved and therefore some of those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.

(3) Or during the period that the Executive was a KMP. One ordinary share was issued as a result of the exercise of one PSU.

(4) Based on closing share price at 30 June 2014, being the day the PSUs were forfeited.

(5) Based on the share price at the time of exercise.

(6) PSUs were formally issued on 17 February 2014.

Macquarie has adopted the fair value measurement provisions of AASB 2 *Share-Based Payment* for all PSUs granted to KMP. The fair value of such grants is being amortised and disclosed as part of each KMP's remuneration on a straight-line basis over the vesting period. The 2014 PSU allocation has been determined based on a valuation of a PSU at 15 August 2014. The fair value of $A47.90 at this date has been estimated using a discounted cash flow method.

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

- interest rate to maturity: 3.10 per cent
- expected vest date: 1 July 2017 and 1 July 2018
- dividend yield: 4.97 per cent per annum.

PSUs have a nil exercise price. PSUs vest on a pro-rata basis as set out on pages 85 to 87. For the 2014 grant, the first tranche will vest on 1 July 2017. The PSUs expire on 15 August 2022.

MEREP Awards of Key Management Personnel and their related parties[1]

The following tables set out details of the MEREP RSU and PSU awards held during the year for the KMP including their related parties. Further details in relation to the MEREP RSU and PSU awards are disclosed in Note 33 to the financial statements in the Financial Report.

For the financial year ended 31 March 2015

Name and position	Type of Award	Number of awards held at 1 April 2014[2]	Awards granted during the financial year[3]	Awards vested / exercised during the financial year[4]	Awards not able to be exercised due to performance hurdles not met[5]	Number of awards held at 31 March 2015
Executive Voting Director						
N.W. Moore	RSU	647,252	117,102	114,631		649,723
	PSU	326,612	84,920	41,666	42,712	327,154
Executives						
S.D. Allen[6]	RSU	188,543	29,934	31,606	–	186,871
	PSU	129,210	36,191	14,519	13,507	137,375
T.C. Bishop[6]	RSU	206,679	37,947	47,480	–	197,146
	PSU	110,076	43,315	14,324	8,112	130,955
B.A. Brazil	RSU	461,108	–	15,437	–	445,671
	PSU	–	–	–	–	–
A.J. Downe[7]	RSU	355,755	75,152	50,203	–	380,704
	PSU	257,303	57,848	20,611	35,490	259,050
G.A. Farrell	RSU	232,704	48,496	22,872	–	258,328
	PSU	202,675	57,848	22,834	8,989	228,700
M. McLaughlin	RSU	251,020	25,321	48,861	–	227,480
	PSU	27,476	13,393	–	–	40,869
M.J. Reemst	RSU	97,758	–	10,060	–	87,698
	PSU	–	–	–	–	–
N. Sorbara	RSU	48,108	17,105	6,445	–	58,768
	PSU	33,158	36,191	–	–	69,349
P.C. Upfold	RSU	122,801	–	18,285	–	104,516
	PSU	–	–	–	–	–
S. Vrcelj	RSU	101,748	18,792	30,279	–	90,261
	PSU	68,289	38,470	10,478	5,935	90,346
G.C. Ward	RSU	193,242	31,696	30,329	–	194,609
	PSU	157,300	49,584	17,426	17,644	171,814
S. Wikramanayake[6]	RSU	168,982	47,019	19,432	–	196,569
	PSU	226,286	57,848	19,745	15,587	248,802

(1) A related party of Mr M.J. Coleman holds RSU awards, some of which vested during the year. Mr Coleman does not influence any investment decisions over, nor does he benefit from, this holding.
(2) Or date of appointment if later.
(3) Awards are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs and PSUs disclosed as granted above relate to FY2014.
(4) For RSUs, this represents vested RSUs transferred to the KMP's shareholding and includes RSUs vesting during the current year in respect of grants made prior to Executives becoming a KMP.
(5) Performance hurdles for PSU awards issued on or after 13 August 2010 and vesting at 1 July 2014 were partially achieved and therefore some of those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.
(6) Refer to footnotes (5), (6) and (7) in the table "RSU Awards to KMP" on pages 109 to 110.
(7) Mr Downe had 11,000 PSUs vest which were not exercised during FY2015. There were no other PSUs that vested during the year which were not exercised.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2015
continued

Appendix 4: Other KMP disclosures

Loans to Key Management Personnel and their related parties

Details of loans provided by Macquarie to KMP and their related parties[1] are disclosed in the following tables:

Name and position	Balance at 1 April 2014 $A'000	Interest charged[2] $A'000	Write-downs $A'000	Balance at 31 March 2015 $A'000	Highest balance during year $A'000
Executives					
N. Sorbara	250	14	–	559	560

(1) There were no other loans provided by Macquarie to KMP and their related parties during the financial year ended 31 March 2015.
(2) All loans provided by Macquarie to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

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

Throughout this Remuneration Report financial information for Macquarie relating to the years ended 31 March 2006 through to 31 March 2015 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

This is the end of the Remuneration Report.

Directors' Report Schedule 3 – Auditor's Independence Declaration
for the financial year ended 31 March 2015

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

K. G. Smith

K.G. Smith
Partner
PricewaterhouseCoopers

Sydney
8 May 2015

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

Financial Report
for the financial year ended 31 March 2015
Contents

The Financial Report was authorised for issue by the Directors on 8 May 2015.
The Consolidated Entity has the power to amend and reissue the Financial Report.

Income statements
for the financial year ended 31 March 2015

	Notes	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Interest and similar income		**5,009**	4,611	**372**	339
Interest expense and similar charges		**(2,917)**	(2,906)	**(375)**	(410)
Net interest income/(expense)	2	**2,092**	1,705	**(3)**	(71)
Fee and commission income	2	**4,770**	3,853	**9**	9
Net trading income	2	**1,727**	1,570	**67**	5
Share of net profits of associates and joint ventures accounted for using the equity method	2	**5**	149	**–**	–
Other operating income and charges	2	**699**	855	**2,544**	2,757
Net operating income		**9,293**	8,132	**2,617**	2,700
Employment expenses	2	**(4,143)**	(3,736)	**(4)**	(4)
Brokerage, commission and trading-related expenses	2	**(855)**	(779)	**–**	–
Occupancy expenses	2	**(379)**	(382)	**–**	–
Non-salary technology expenses	2	**(437)**	(323)	**–**	–
Other operating expenses	2	**(957)**	(806)	**–**	(3)
Total operating expenses		**(6,771)**	(6,026)	**(4)**	(7)
Operating profit before income tax		**2,522**	2,106	**2,613**	2,693
Income tax (expense)/benefit	4	**(899)**	(827)	**(32)**	15
Profit after income tax		**1,623**	1,279	**2,581**	2,708
(Profit)/loss attributable to non-controlling interests:					
Macquarie Income Securities	5	**(18)**	(18)	**–**	–
Macquarie Income Preferred Securities	5	**(5)**	(4)	**–**	–
Other non-controlling interests		**4**	8	**–**	–
Profit attributable to non-controlling interests		**(19)**	(14)	**–**	–
Profit attributable to ordinary equity holders of Macquarie Group Limited		**1,604**	1,265	**2,581**	2,708
		Cents per share			
Basic earnings per share	6	**502.3**	383.6		
Diluted earnings per share	6	**484.2**	369.2		

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

Statements of comprehensive income
for the financial year ended 31 March 2015

	Notes	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Profit after income tax		**1,623**	1,279	**2,581**	2,708
Other comprehensive income/(expense)[1]:					
Available for sale investments, net of tax		**58**	72	**–**	–
Cash flow hedges, net of tax	29	**(56)**	21	**–**	–
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	29	**(14)**	14	**–**	–
Exchange differences on translation of foreign operations, net of hedge and tax		**877**	612	**–**	–
Total other comprehensive income		**865**	719	**–**	–
Total comprehensive income		**2,488**	1,998	**2,581**	2,708
Total comprehensive income/(expense) attributable to:					
Ordinary equity holders of Macquarie Group Limited		**2,460**	1,954	**2,581**	2,708
Macquarie Income Securities holders		**18**	18	**–**	–
Macquarie Income Preferred Securities holders		**11**	18	**–**	–
Other non-controlling interests		**(1)**	8	**–**	–
Total comprehensive income		**2,488**	1,998	**2,581**	2,708

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

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

Statements of financial position
as at 31 March 2015

	Notes	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Assets					
Receivables from financial institutions	7	**28,705**	19,457	**–**	–
Trading portfolio assets	8	**30,406**	22,462	**–**	–
Derivative assets		**20,080**	12,633	**–**	–
Investment securities available for sale	9	**8,896**	14,051	**–**	–
Other assets	10	**13,557**	12,990	**138**	270
Loan assets held at amortised cost	11	**72,762**	58,712	**–**	–
Other financial assets at fair value through profit or loss	13	**2,125**	2,854	**–**	–
Due from subsidiaries	31	**–**	–	**10,361**	8,711
Property, plant and equipment	14	**7,079**	6,311	**–**	–
Interests in associates and joint ventures accounted for using the equity method	15	**2,328**	2,447	**–**	–
Intangible assets	16	**1,164**	1,221	**–**	–
Investments in subsidiaries	17,1	**–**	–	**15,871**	13,637
Deferred tax assets	18	**874**	766	**59**	143
Total assets		**187,976**	153,904	**26,429**	22,761
Liabilities					
Trading portfolio liabilities	19	**5,295**	2,762	**–**	–
Derivative liabilities		**18,267**	11,973	**–**	–
Deposits	20	**47,386**	42,401	**18**	33
Other liabilities	21	**15,830**	13,908	**68**	74
Payables to financial institutions	22	**18,645**	19,654	**2,566**	1,307
Other financial liabilities at fair value through profit or loss	23	**1,626**	1,464	**–**	–
Due to subsidiaries	31	**–**	–	**810**	866
Debt issued at amortised cost	24	**61,463**	45,565	**6,179**	6,265
Provisions	25	**220**	205	**–**	–
Deferred tax liabilities	18	**464**	551	**–**	–
Total liabilities excluding loan capital		**169,196**	138,483	**9,641**	8,545
Loan capital					
Subordinated debt at amortised cost		**4,384**	3,507	**603**	601
Total loan capital	27	**4,384**	3,507	**603**	601
Total liabilities		**173,580**	141,990	**10,244**	9,146
Net assets		**14,396**	11,914	**16,185**	13,615
Equity					
Contributed equity	28	**5,947**	5,112	**8,667**	7,852
Reserves	29	**1,656**	669	**654**	559
Retained earnings	29	**6,306**	5,637	**6,864**	5,204
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**13,909**	11,418	**16,185**	13,615
Non-controlling interests	29	**487**	496	**–**	–
Total equity		**14,396**	11,914	**16,185**	13,615

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 2015

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Consolidated
Balance at 1 April 2013		5,907	57	5,439	11,403	552	11,955
Profit after income tax		–	–	1,265	1,265	14	1,279
Other comprehensive income, net of tax		–	689	–	689	30	719
Total comprehensive income		–	689	1,265	1,954	44	1,998
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	15	–	–	15	–	15
Purchase of shares by MEREP Trust	28	(216)	–	–	(216)	–	(216)
Dividends and distributions paid or provided for	5	–	–	(1,159)	(1,159)	–	(1,159)
Capital reduction through SYD distribution	28,29	(803)	(72)	–	(875)	–	(875)
Non-controlling interests:							
Change in non controlling ownership interests	29	–	–	(5)	(5)	(86)	(91)
Distributions paid or provided for		–	–	–	–	(14)	(14)
Other equity movements:							
MEREP expense	29	–	257	–	257	–	257
Additional deferred tax benefit on MEREP expense	29	–	53	–	53	–	53
Transfer from share-based payments reserve:							
– to retained earnings	29	–	(97)	97	–	–	–
– to other liabilities for cash settled awards	29	–	(9)	–	(9)	–	(9)
– to equity for equity settled awards	28,29	195	(195)	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense upon vesting to equity	28,29	14	(14)	–	–	–	–
		(795)	(77)	(1,067)	(1,939)	(100)	(2,039)
Balance at 31 March 2014		**5,112**	**669**	**5,637**	**11,418**	**496**	**11,914**
Profit after income tax		**–**	**–**	**1,604**	**1,604**	**19**	**1,623**
Other comprehensive income, net of tax		**–**	**856**	**–**	**856**	**9**	**865**
Total comprehensive income		**–**	**856**	**1,604**	**2,460**	**28**	**2,488**
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	**847**	**–**	**–**	**847**	**–**	**847**
Purchase of shares by MEREP Trust	28	**(266)**	**–**	**–**	**(266)**	**–**	**(266)**
Dividends and distributions paid or provided for	5	**–**	**–**	**(931)**	**(931)**	**–**	**(931)**
Non-controlling interests:							
Change in non controlling ownership interests	29	**–**	**–**	**(4)**	**(4)**	**(12)**	**(16)**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(25)**	**(25)**
Other equity movements:							
MEREP expense	29	**–**	**319**	**–**	**319**	**–**	**319**
Additional deferred tax benefit on MEREP expense	29	**–**	**67**	**–**	**67**	**–**	**67**
Transfer from share-based payments reserve:							
– to other liabilities for cash settled awards	29	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
– to equity for equity settled awards	28,29	**242**	**(242)**	**–**	**–**	**–**	**–**
Transfer from share-based payment capital reduction reserve to equity	28,29	**(19)**	**19**	**–**	**–**	**–**	**–**
Transfer of additional deferred tax benefit on MEREP expense upon vesting to equity	28,29	**31**	**(31)**	**–**	**–**	**–**	**–**
		835	**131**	**(935)**	**31**	**(37)**	**(6)**
Balance at 31 March 2015		**5,947**	**1,656**	**6,306**	**13,909**	**487**	**14,396**

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Company
Balance at 1 April 2013		8,642	675	3,543	12,860	–	12,860
Profit after income tax		–	–	2,708	2,708	–	2,708
Total comprehensive income		–	–	2,708	2,708	–	2,708
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	24	–	–	24	–	24
Purchase of shares by MEREP Trust	28	(216)	–	–	(216)	–	(216)
Dividends and distributions paid or provided for	5	–	–	(1,144)	(1,144)	–	(1,144)
Capital reduction through SYD distribution	28,29	(793)	(72)	–	(865)	–	(865)
Other equity movements:							
MEREP expense	29	–	257	–	257	–	257
Transfer from share-based payments reserve:							
– to retained earnings	29	–	(97)	97	–	–	–
– to other liabilities for cash settled awards	29	–	(9)	–	(9)	–	(9)
– to equity for equity settled awards	28,29	195	(195)	–	–	–	–
		(790)	(116)	(1,047)	(1,953)	–	(1,953)
Balance at 31 March 2014		**7,852**	**559**	**5,204**	**13,615**	**–**	**13,615**
Profit after income tax		**–**	**–**	**2,581**	**2,581**	**–**	**2,581**
Total comprehensive income		**–**	**–**	**2,581**	**2,581**	**–**	**2,581**
Transactions with equity holders in their capacity as equity holders:							
Contributions of ordinary equity, net of transaction costs	28	**858**	**–**	**–**	**858**	**–**	**858**
Purchase of shares by MEREP Trust	28	**(266)**	**–**	**–**	**(266)**	**–**	**(266)**
Dividends and distributions paid or provided for	5	**–**	**–**	**(921)**	**(921)**	**–**	**(921)**
Other equity movements:							
MEREP expense	29	**–**	**319**	**–**	**319**	**–**	**319**
Transfer from share-based payments reserve:							
– to other liabilities for cash settled awards	29	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
– to equity for equity settled awards	28,29	**242**	**(242)**	**–**	**–**	**–**	**–**
Transfer from share-based payment capital reduction reserve to equity	28,29	**(19)**	**19**	**–**	**–**	**–**	**–**
		815	**95**	**(921)**	**(11)**	**–**	**(11)**
Balance at 31 March 2015		**8,667**	**654**	**6,864**	**16,185**	**–**	**16,185**

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 2015

	Notes	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Cash flows (used in)/ from operating activities					
Interest received		4,680	4,350	369	339
Interest and other costs of finance paid		(2,935)	(2,901)	(377)	(410)
Dividends and distributions received		257	214	1,273	810
Fees and other non-interest income received		5,752	4,686	92	16
Fees and commissions paid		(830)	(782)	–	–
Net payments on trading portfolio assets and other financial assets/liabilities		(12,834)	(2,067)	–	–
(Payments to)/receipts from suppliers		(543)	(643)	–	3
Employment expenses paid		(3,582)	(3,122)	(4)	(4)
Income tax (paid)/refund		(178)	(336)	116	(115)
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		1,392	1,191	–	–
Life investment contract payments		(1,331)	(1,123)	–	–
Net loan assets granted		(13,570)	(7,776)	(1,339)	(1,209)
Net increase in amounts due to other financial institutions, deposits and other borrowings		22,140	8,169	1,163	929
Proceeds from the disposal of lease assets		64	51	–	–
Payments for the acquisition of lease assets		(895)	(377)	–	–
Net cash flows (used in)/from operating activities	30	(2,413)	(466)	1,293	359
Cash flows from/(used in) investing activities					
Net proceeds from investment securities available for sale		2,993	4,188	–	–
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		1,855	565	–	–
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		(776)	(729)	(950)	–
Proceeds from the disposal of property, plant and equipment, lease assets and intangible assets		158	105	–	–
Payments for the acquisition of property, plant and equipment, lease assets and intangible assets		(416)	(314)	–	–
Net cash flows from/(used in) investing activities		3,814	3,815	(950)	–
Cash flows from/(used in) financing activities					
Proceeds from the issue of ordinary shares	28	673	12	673	12
(Payments to)/proceeds from non-controlling interests		(13)	103	–	–
Proceeds from issue of subordinated debt		421	359	–	600
Repayment of convertible preference shares subordinated debt		–	(359)	–	–
Dividends and distributions paid		(783)	(787)	(750)	(755)
Payments for acquisition of treasury shares	28	(266)	(216)	(266)	(216)
Net cash flows from/(used in) financing activities		32	(888)	(343)	(359)
Net increase in cash and cash equivalents		1,433	2,461	–	–
Cash and cash equivalents at the beginning of the financial year		15,540	13,079	–	–
Cash and cash equivalents at the end of the financial year	30	16,973	15,540	–	–

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

Note 1

Summary of significant accounting policies

(i) Basis of preparation

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

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

Compliance with IFRS as issued by the IASB

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

Historical cost convention

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

Critical accounting estimates and significant judgements

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

– fair value of financial assets and liabilities (Note 39)
– impairment of loan assets held at amortised cost, investment securities available for sale and interests in associates and joint ventures, investment in subsidiaries (Notes 1(xii), 1(xiv), 1(xxviii), 11, 15 and 17)
– acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (Notes 1(ii), 1(xiii), 15 and 43)
– distinguishing between whether assets or a business is acquired (Note 1(iii))
– determination of control of structured entities (Notes 1(ii) and 36)
– determination of whether dividends and distributions received are recognised as income or a return of capital (Note 1(vi))
– recoverability of deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(vii), 4 and 18)
– the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (Notes 1(xvii) and 16), and
– recognition of performance fees from Macquarie-managed unlisted funds (Note 1(vi)).

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

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

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

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

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

AASB 2012-3 is required to be retrospectively applied. Application in the current period did not have a material impact on the financial position nor performance of the Consolidated Entity.

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

AASB 2011-4 removes the individual Key Management Personnel disclosure requirements from AASB 124 *Related Party Disclosures*. The application of AASB 2011-4 in the current financial year has reduced disclosures provided in the financial report but has not affected any of the amounts recognised in the financial statements.

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

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

AASB 2013-5 is required to be retrospectively applied. Application in the current period has not had a material impact on the financial position nor performance of the Consolidated Entity.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 1
Summary of significant accounting policies continued

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

AASB 9 Financial Instruments

AASB 9 will replace AASB 139 *Financial Instruments: Recognition and Measurement*. It will lead to changes in the accounting for financial instruments, primarily relating to:

Financial assets: A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the asset gives rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of debt instruments that:

(i) have cash flows solely of principal and interest, and
(ii) are held in a business model managed both to collect cash flows and for sale

are recognised in other comprehensive income until sold, when they are recycled to the income statement. Interest and impairment are recognised directly in profit or loss. Changes in the fair value of equity investments that are not part of a trading activity may be reported directly in other comprehensive income, but upon realisation, those accumulated changes are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement. The combined effect of the application of the business model and the contractual cash flow characteristics tests will result in some differences in the assets measured at amortised cost vs. fair value compared with AASB 139.

Financial liabilities: The component of change in fair value of financial liabilities designated at fair value through profit or loss due to an entity's own credit risk are presented in other comprehensive income, unless this creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of credit risk) are presented in profit or loss. These requirements may be applied early without applying all other requirements of AASB 9.

Impairment: The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance is recognised for expected credit losses (ECL), resulting from possible defaults within the next 12 months. Subsequently, when there is a significant increase in credit risk, an allowance is required for ECL resulting from possible defaults over the expected life of the financial instrument. The assessment of credit risk, and the estimation of ECL, are to be unbiased and probability-weighted, and incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date. As a result, the impairment allowance is intended to be more forward-looking and the resulting impairment charge will tend to be more volatile than under AASB 139.

Hedge accounting: Hedge accounting is more closely aligned with financial risk management, and may be applied to a greater variety of hedging instruments and risks.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2018. The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

AASB 15 Revenue from Contracts with Customers

AASB 15 specifies how and when revenue is recognised, based on the concept of recognising revenue for performance obligations as they are satisfied. This could affect the timing and amount recognised for asset management fees, and contracts with multiple services. AASB 15 also requires enhanced disclosures.

AASB 15 is effective for annual periods beginning on or after 1 January 2017. The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2017.

The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

AASB 2014-10 amends AASB 128 and AASB 10 to require that when an investor sells or contributes assets that constitute a business to its associate or joint venture, a full gain or loss is recognised. When the assets transferred do not constitute a business, the gain or loss recognised is limited to the interest sold. In determining whether the assets sold or contributed are a business, it is irrelevant whether the items transferred exist within a subsidiary.

AASB 2014-10 is effective for annual periods beginning on or after 1 January 2016. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2016. Initial application is not expected to result in any material impact for the Consolidated Entity.

AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

AASB 2015-5 introduces a choice in application of the equity method by a non-investment entity investor to an investment entity investee. When a non-investment entity investor applies the equity method to an investment entity associate or joint venture, the investor may retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries, or reverse the fair value measurement to conform to the accounting policies of the investor.

AASB 2015-5 is effective for annual reporting periods beginning on or after 1 January 2016. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2016. Initial application is not expected to result in any material impact for the Consolidated Entity.

(ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) over which the Company has:

(i) power to direct the relevant activities
(ii) exposure to significant variable returns, and
(iii) the ability to utilise power to affect the Consolidated Entity's own returns.

The determination of control is based on current facts and circumstances and is continuously assessed.

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

Structured entities

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

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

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

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

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

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

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

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

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

(iii) Business combinations

Business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the date of exchange) of assets acquired, equity instruments issued or liabilities incurred or assumed at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity, and those arising on borrowings are capitalised and included in interest expense using the effective interest method.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 1
Summary of significant accounting policies continued

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

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

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

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

(iv) Segment reporting

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

(v) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of foreign operations are measured using the currency of the primary economic environment in which the foreign operation operates (the functional currency). The Company's and Consolidated Entity's financial statements are presented in Australian dollars (the presentation currency), which is also the Company's functional currency.

Transactions and balances

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

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

Subsidiaries and other entities

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

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

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

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

(vi) Revenue and expense recognition

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

Net interest income

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

Fee and commission income

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

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

Performance fees from Macquarie-managed unlisted funds are recognised when the fee can be reliably measured and its receipt is highly probable. Factors that are taken into consideration include:

– the proportion of assets already realised
– returns on assets realised to-date
– downside valuation on remaining unrealised assets and reliability of those estimates
– nature of unrealised investments and their returns.

Net trading income

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

Dividends and distributions

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

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

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

(vii) Income tax

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 1
Summary of significant accounting policies continued

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

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

Tax consolidation

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

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

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

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

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

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

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

(ix) Trading portfolio assets and liabilities

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

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

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

(x) Derivative instruments

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

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

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

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

(xi) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

For a derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability (or an unrecognised firm commitment), 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 39. Movements in the cash flow hedging reserve in equity are shown in Note 29.

(xii) Investments and other financial assets

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

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

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

Investment securities available for sale

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

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 1
Summary of significant accounting policies continued

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

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

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

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

(xiv) Impairment

Loan assets held at amortised cost

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

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

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

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

Investment securities available for sale

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

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost. In making this judgement, the Consolidated Entity evaluates among other factors, the normal volatility in share price and the period of time for which fair value has been below cost.

In the case of debt securities classified as available for sale, observable data that relates to loss events are considered, including adverse changes in the payment status of the issuer and national or local economic conditions that correlate with defaults on those assets.

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

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

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

Interests in associates and joint ventures

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

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

(xv) Life insurance business

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

Disclosure

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

Investment assets

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

Restriction on assets

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

Policy liabilities

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

(xvi) Property, plant and equipment

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

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

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

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

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

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

(xvii) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

Licences and trading rights are generally 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.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 1
Summary of significant accounting policies continued

Customer and servicing contracts acquired with a finite useful life are carried at cost less accumulated amortisation and any impairment losses. Amortisation is calculated over the period over which the customer relationship is expected to exist.

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 to seven years. Costs incurred on software maintenance are expensed as incurred.

Impairment

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

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

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

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

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

(xviii) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

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

(xix) 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.

(xx) 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 – Earnings per share for information concerning the classification of securities.

(xxi) Performance based remuneration

Share-based payments

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

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

Profit share remuneration

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

(xxii) Cash and cash equivalents

Cash and cash equivalents comprise:

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

(xxiii) Leases

Leases where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are operating leases.

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

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

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

(xxiv) Offsetting financial instruments

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

(xxv) Loan capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under Australian Prudential Regulation Authority (APRA) Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method (for debt host component of convertible preference securities and subordinated debt at amortised cost).

(xxvi) 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.

(xxvii) Changes in ownership interests

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

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

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

(xxviii) Comparatives

During the current financial year, as a consequence of the continued improvement in the performance of its subsidiaries, the Company recognised a reversal of $2,919 million of its impairment in its investment in subsidiaries. The impairment reversal has been split across the years ended 31 March 2015 $1,271 million and a restatement to 31 March 2014 $1,648 million. Where necessary, comparative information has been restated to conform to changes in presentation in the current year.

(xxix) Rounding of amounts

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 2
Profit for the financial year

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Net interest income				
Interest and similar income received/receivable	**5,009**	4,611	**372**	339
Interest expense and similar charges paid/payable	**(2,917)**	(2,906)	**(375)**	(410)
Net interest income/(expense)	**2,092**	1,705	**(3)**	(71)
Fee and commission income				
Base fees	**1,388**	1,289	**–**	–
Performance fees	**667**	219	**–**	–
Mergers and acquisitions, advisory and underwriting fees	**973**	809	**–**	–
Brokerage and commissions	**867**	903	**–**	–
Other fee and commission income	**875**	633	**9**	9
Total fee and commission income	**4,770**	3,853	**9**	9
Net trading income (1)				
Equities	**384**	382	**6**	–
Commodities(2)	**1,039**	1,102	**–**	–
Credit, Interest rate and foreign exchange products	**304**	86	**61**	5
Net trading income	**1,727**	1,570	**67**	5
Share of net profits of associates and joint ventures accounted for using the equity method	**5**	149	**–**	–

(1) Included in net trading income are fair value losses of $32 million (2014: $484 million gain) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which principally 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.

(2) Net of transportation costs $247 million (2014: $87 million).

Note 2

Profit for the financial year continued

	Consolidated 2015 $m	Consolidated 2014 $m	**Company 2015 $m**	Company 2014 $m
Other operating income and charges				
Net gains/(losses) on sale of investment securities available for sale	**215**	441	**–**	(19)
Impairment charge on investment securities available for sale	**(67)**	(85)	**–**	–
Net gains on sale of associates and joint ventures	**109**	61	**–**	–
Impairment charge on interests in associates and joint ventures	**(121)**	(152)	**–**	–
Gain on disposal of operating lease assets	**231**	2	**–**	–
Gain on acquiring, disposing and change in ownership interest in subsidiaries and associates	**190**	26	**–**	–
Impairment reversal on subsidiaries (Note 1(xxviii))	**–**	–	**1,271**	1,648
Impairment charge on intangibles and other non-financial assets	**(168)**	(28)	**–**	–
Net operating lease income:				
Rental income	**1,025**	930	**–**	–
Depreciation on operating lease assets (Note 14)	**(440)**	(401)	**–**	–
Dividends/distributions received/receivable:				–
Investment securities available for sale	**102**	208	**–**	–
Subsidiaries (Note 31)	**–**	–	**1,273**	1,128
Collective allowance for credit losses provided for during the financial year:				
Loan assets (Note 11)	**(91)**	(58)	**–**	–
Debt investment securities available for sale	**(13)**	(6)	**–**	–
Individually assessed provisions and write-offs:				
Loan assets provided for during the financial year (Note 11)	**(305)**	(119)	**–**	–
Other receivables provided for during the financial year	**(30)**	(32)	**–**	–
Recovery of loans previously provided for (Note 11)	**27**	11	**–**	–
Recovery of other receivables previously provided for	**4**	7	**–**	–
Loans written off	**(83)**	(62)	**–**	–
Recovery of loans previously written off	**24**	17	**–**	–
Other income	**90**	95	**–**	–
Total other operating income and charges	**699**	855	**2,544**	2,757
Net operating income	**9,293**	8,132	**2,617**	2,700

Notes to the financial statements
for the financial year ended 31 March 2015
continued

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 2
Profit for the financial year continued

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(3,541)**	(3,217)	**(4)**	(4)
Share-based payments[1]	**(340)**	(284)	**–**	–
Provision for long service leave and annual leave	**(10)**	(4)	**–**	–
Total compensation expense	**(3,891)**	(3,505)	**(4)**	(4)
Other employment expenses including on-costs, staff procurement and staff training	**(252)**	(231)	**–**	–
Total employment expenses	**(4,143)**	(3,736)	**(4)**	(4)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	**(671)**	(627)	**–**	–
Other fee and commission expenses	**(184)**	(152)	**–**	–
Total brokerage, commission and trading-related expenses	**(855)**	(779)	**–**	–
Occupancy expenses				
Operating lease rentals	**(231)**	(226)	**–**	–
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 14)	**(72)**	(84)	**–**	–
Other occupancy expenses	**(76)**	(72)	**–**	–
Total occupancy expenses	**(379)**	(382)	**–**	–
Non-salary technology expenses				
Information services	**(145)**	(140)	**–**	–
Depreciation: equipment (Note 14)	**(16)**	(20)	**–**	–
Service provider and other non-salary technology expenses	**(276)**	(163)	**–**	–
Total non-salary technology expenses	**(437)**	(323)	**–**	–
Other operating expenses				
Professional fees	**(315)**	(257)	**–**	–
Auditor's remuneration (Note 42)	**(27)**	(24)	**–**	–
Travel and entertainment expenses	**(158)**	(150)	**–**	–
Advertising and promotional expenses	**(79)**	(67)	**–**	–
Communication expenses	**(33)**	(29)	**–**	–
Amortisation of intangibles (Note 16)	**(95)**	(66)	**–**	–
Other expenses	**(250)**	(213)	**–**	(3)
Total other operating expenses	**(957)**	(806)	**–**	(3)
Total operating expenses	**(6,771)**	(6,026)	**(4)**	(7)

(1) Includes $21 million (2014: $27 million) of share based payment expense for cash settled awards.

Note 3

Segment reporting

(i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclosing information about Macquarie's reportable segments. The financial information is reported on the same basis as used internally by senior management for evaluating operating segment performance and for deciding how to allocate resources to operating segments. Such information may be produced using different measures to that used in preparing the statutory income statement.

For internal reporting, performance measurement and risk management purposes, Macquarie is divided into six operating groups and a corporate segment. These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

The operating groups comprise:

Macquarie Asset Management (MAM) provides clients with access to a diverse range of capabilities and products, including infrastructure and real asset management, securities investment management and tailored investment solutions over funds and listed equities.

Corporate and Asset Finance (CAF) delivers tailored finance and asset management solutions to clients through the cycles, specialising in corporate and real estate lending and with an expertise in asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail, rotorcraft and mining equipment.

Banking and Financial Services (BFS) provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisors, brokers and business clients.

Macquarie Securities Group (MSG) is a global institutional securities house with strong Asia-Pacific foundations covering sales, research, equity capital markets, execution and derivatives activities.

Macquarie Capital provides corporate finance advisory and capital markets services to corporate and government clients involved in public and private M&A, debt and equity fund raisings, private equity raisings and corporate debt restructuring.

Commodities and Financial Markets (CFM) provides clients with risk and capital solutions across physical and financial markets.

The **Corporate** segment, which is not considered an operating group, includes head office and central support functions including Group Treasury. The Corporate segment also holds certain legacy investments, assets and businesses that are no longer core for strategic reasons and not allocated to any of the operating groups.

Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs and costs of central support functions, the Group's performance-related profit share and share based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

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

Below is a selection of key policies applied in determining operating segment results.

Internal funding arrangements

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

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

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

Transactions between Operating Groups

Operating groups that enter into arrangements with other operating groups must do so on commercial terms or as agreed by the Group's Chief Executive Officer or Chief Financial Officer (CFO). There is a requirement for accounting symmetry in such transactions.

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

Central support functions

Central support functions recover their costs from operating groups on either a time and effort allocation basis or a fee for service basis. Central support functions include Corporate Operations Group (COG), Financial Management Group (FMG), Risk Management Group (RMG), Legal and Governance and Central Executive.

Performance-related profit share and share based payments expense

Performance-related profit share and share based payments expense relating to the MEREP is recognised in the Corporate segment and not allocated to operating groups.

Income tax

Income tax expense and benefits are recognised in the Corporate segment and not allocated to operating groups. However, to recognise an operating group's contribution to permanent income tax differences, an internal management revenue or charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on aggregation.

Presentation of segment income statements

The income statements in the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of Macquarie's financial performance.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 3
Segment reporting continued

(i) Operating segments continued

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

	Macquarie Asset Management $m	Corporate and Asset Finance $m	Banking and Financial Services $m
Net interest and trading income/(expense)	**11**	**737**	**825**
Fee and commission income/(expense)	**2,303**	**33**	**532**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**13**	**3**	**3**
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	**(36)**	**(153)**	**(35)**
Other other operating income and charges	**154**	**977**	**17**
Internal management revenue/(charge)	**2**	**(3)**	**3**
Net operating income	**2,447**	**1,594**	**1,345**
Total operating expenses	**(997)**	**(482)**	**(1,060)**
Profit/(loss) before tax	**1,450**	**1,112**	**285**
Tax expense	**–**	**–**	**–**
Loss/(profit) attributable to non-controlling interests	**–**	**–**	**–**
Net profit/(loss) contribution	**1,450**	**1,112**	**285**
Reportable segment assets	**7,341**	**30,091**	**37,282**
Net interest and trading (expense)/income	(23)	663	738
Fee and commission income/(expense)	1,720	36	576
Share of net profits of associates and joint ventures accounted for using the equity method	103	2	1
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	4	(85)	(49)
Other other operating income and charges	108	576	49
Internal management revenue/(charge)	16	15	5
Net operating income	1,928	1,207	1,320
Total operating expenses	(877)	(381)	(1,060)
Profit/(loss) before tax	1,051	826	260
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	–	–	–
Net profit/(loss) contribution	1,051	826	260
Reportable segment assets	8,582	26,543	29,612

Macquarie Securities Group $m	Macquarie Capital $m	Commodities and Financial Markets $m	Corporate $m	Total $m
				Consolidated 2015
289	**(24)**	**1,693**	**288**	**3,819**
652	**860**	**418**	**(28)**	**4,770**
–	**13**	**(1)**	**(26)**	**5**
(4)	**(58)**	**(334)**	**(203)**	**(823)**
(9)	**258**	**65**	**60**	**1,522**
(10)	**5**	**(10)**	**13**	**–**
918	**1,054**	**1,831**	**104**	**9,293**
(854)	**(629)**	**(996)**	**(1,753)**	**(6,771)**
64	**425**	**835**	**(1,649)**	**2,522**
–	**–**	**–**	**(899)**	**(899)**
–	**5**	**–**	**(24)**	**(19)**
64	**430**	**835**	**(2,572)**	**1,604**
31,051	**3,634**	**69,634**	**8,943**	**187,976**
				Consolidated 2014
234	(35)	1,580	118	3,275
633	727	162	(1)	3,853
–	18	23	2	149
(5)	(48)	(207)	(117)	(507)
2	148	131	348	1,362
1	7	(7)	(37)	–
865	817	1,682	313	8,132
(758)	(548)	(956)	(1,446)	(6,026)
107	269	726	(1,133)	2,106
–	–	–	(827)	(827)
–	11	–	(25)	(14)
107	280	726	(1,985)	1,265
26,015	2,885	44,811	15,456	153,904

Notes to the financial statements
for the financial year ended 31 March 2015
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
– **Lending:** banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2015
Revenues from external customers	**3,052**	**3,731**	**2,032**	**5,128**	**13,943**
					Consolidated 2014
Revenues from external customers	2,507	3,196	2,023	4,395	12,121

(iii) Geographical areas

Geographical segments have been determined based upon 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 2015
Americas[(2)]	**5,415**	**2,094**
Australia	**4,923**	**2,029**
Europe, Middle East and Africa[(3)]	**2,283**	**6,383**
Asia Pacific	**1,322**	**317**
Total	**13,943**	**10,823**
		Consolidated 2014
Americas[(2)]	3,672	2,556
Australia	5,513	2,024
Europe, Middle East and Africa[(3)]	2,012	5,207
Asia Pacific	924	369
Total	12,121	10,156

(1) Non-current assets consist of intangible assets, interests in associates and joint ventures accounted for using the equity method, property, plant and equipment and property held for sale and development.
(2) Included within this balance is external revenue generated in the USA of $4,505 million (2014: $2,879 million).
(3) Included within this balance is external revenue generated in the UK of $1,885 million (2014: $1,356 million).

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 4

Income tax expense

(i) Income tax (expense)/benefit

Current tax expense	**(1,056)**	(321)	**(13)**	(21)
Deferred tax benefit/(expense)	**157**	(506)	**(19)**	36
Total	**(899)**	(827)	**(32)**	15

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

Prima facie income tax expense on operating profit(1)	**(757)**	(632)	**(784)**	(808)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	**(129)**	(179)	**4**	4
Impairment reversal on subsidiary	**–**	–	**381**	494
Intra-group dividend	**–**	–	**382**	338
Other items	**(13)**	(16)	**(15)**	(13)
Total income tax (expense)/benefit	**(899)**	(827)	**(32)**	15

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

Available for sale reserve	**(61)**	(38)	**–**	–
Cash flow hedges	**25**	(11)	**–**	–
Foreign currency translation reserve	**(19)**	(31)	**–**	–
Share of other comprehensive income of associates and joint ventures	**7**	(6)	**–**	–
Total tax expense relating to items of other comprehensive income	**(48)**	(86)	**–**	–

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

Investments	**(171)**	(111)	**–**	–
Fixed assets	**(19)**	5	**–**	–
Leasing and financial instruments	**46**	(198)	**(50)**	(77)
Intangible assets	**2**	(15)	**–**	–
Other assets and liabilities	**300**	(22)	**19**	27
Tax Losses	**(1)**	(165)	**12**	86
Total deferred tax benefit/(expense) represents movements in deferred tax assets/liabilities	**157**	(506)	**(19)**	36

(1) Prima facie income tax on operating profit is calculated at the rate of 30 percent.

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

The Group has assessed these and other taxation claims and litigation, including seeking advice where appropriate, and considers that it holds appropriate provisions.

The audit by the Australian Taxation Office (ATO) has concluded and all outstanding matters have been resolved. Macquarie continues to be part of the Pre-lodgement Compliance Review process, whereby the ATO undertakes a review prior to the lodgement of Macquarie's tax returns.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 5
Dividends and distributions paid or provided for

(i) Dividends paid or provided for

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Ordinary share capital and exchangeable shares				
2014 final dividend paid ($1.60 (2013: $1.25) per share) [(1),(3)]	**514**	420	**508**	419
2015 interim dividend paid ($1.30 (2014: $1.00) per share)[(2)]	**417**	345	**413**	336
2014 special dividend paid[(4)]	**–**	395	**–**	389
Dividends reversed	**–**	(1)	**–**	–
Total dividends paid or provided for (Note 29)	**931**	1,159	**921**	1,144

(1) Final dividend paid by the Consolidated Entity includes $5 million (2014: $nil) of dividend equivalent amount paid to Deferred Share Units (DSUs) holders as described in Note 33 – Employee equity participation.
(2) Interim dividend paid by the Consolidated Entity includes $4 million (2014: $8 million) of dividend equivalent amount paid to DSUs holders as described in Note 33 – Employee equity participation.
(3) Final dividend paid by the Consolidated Entity includes $1 million (2014: $1 million) of dividends paid to holders of the exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. as described in Note 28 – Contributed equity.
(4) On 12 December 2013, MGL shareholders approved the SYD Distribution, a distribution of the majority of the Group's investment in Sydney Airport stapled securities (SYD Securities) to its ordinary shareholders implemented through a special dividend and a capital reduction along with a consolidation of one MGL share into 0.9438 ordinary share (Refer to Note 28 – Contributed equity for further details on capital reduction and share consolidation). Eligible MGL ordinary shareholders received one SYD Security for each MGL ordinary share held. The carrying value of SYD securities on approval date (12 December 2013) was $3.77 per share and at settlement date (13 January 2014) was $3.73 per share. The special dividend component of the SYD Distribution was $1.1563 per ordinary share. The amount paid by the Consolidated Entity includes $2 million paid to the holders of the exchangeable shares and $4 million to DSU holders.

The final and interim dividend paid during the financial year was 40 percent franked based on tax paid at 30 percent (full year to 31 March 2014: 40 percent franked on tax paid at 30 percent). The dividends paid to holders of exchangeable shares were not franked.

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. The previous discount to the Market Value has been removed. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of shares purchased from the market and then allocated as fully paid ordinary shares pursuant to the DRP are included in Note 28 – 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 2015 final dividend of $2.00 per fully paid ordinary share, 40 percent franked based on tax paid at 30 percent. The aggregate amount of the proposed dividend expected to be paid on 2 July 2015 from retained profits at 31 March 2015, but not recognised as a liability at the end of the financial year, is $666 million (including $1 million to be paid by a subsidiary to the holders of the exchangeable shares and net of $2 million to be received on treasury shares (refer to Note 28 – 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 2015.

	Consolidated 2015	Consolidated 2014	Company 2015	Company 2014
				Dividend per ordinary share
Cash dividend per ordinary share (distribution of current year profits)	**$3.30**	$2.60	**$3.30**	$2.60

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Franking credits available for the subsequent financial year at a corporate tax rate of 30 percent (2014: 30 percent)	**144**	250	**144**	250

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 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 5

Dividends and distributions paid or provided for continued

(iii) Distributions paid or provided for

Macquarie Income Securities				
Distributions paid (net of distributions previously provided for)	14	14	–	–
Distributions provided for	4	4	–	–
Total distributions paid or provided for	**18**	18	–	–

The Macquarie Income Securities (MIS) represent the NCI of a subsidiary. Refer to Note 29 – Reserves, retained earnings and non- controlling interests for further details on these instruments. No dividends are payable under the preference shares until Macquarie Bank Limited (MBL), a subsidiary, exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion.

Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided for)	3	2	–	–
Distributions provided for	2	2	–	–
Total distributions paid or provided for	**5**	4	–	–

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

	Consolidated 2015	Consolidated 2014

Note 6

Earnings per share

	Cents per share	
Basic earnings per share	**502.3**	383.6
Diluted earnings per share	**484.2**	369.2
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	**$m**	$m
Profit after income tax	**1,623**	1,279
(Profit)/loss attributable to non-controlling interests:		
Macquarie Income Securities	**(18)**	(18)
Macquarie Income Preferred Securities	**(5)**	(4)
Other non-controlling interests	**4**	8
Total profit attributable to ordinary equity holders of MGL	**1,604**	1,265
Less profit attributable to participating unvested MEREP awards	**(107)**	(91)
Total earnings used in the calculation of basic earnings per share	**1,497**	1,174
Add back: Adjusted interest expense on Macquarie Bank Capital Notes	**6**	–
Adjusted interest expense on Macquarie Group Capital Notes	**18**	14
Adjusted interest expense on Exchangeable Capital Securities	**11**	9
Profit attributable to dilutive participating unvested MEREP awards	**77**	73
Add back adjusted interest expense on Macquarie Convertible Preference Securities[1]	**–**	7
Total earnings used in the calculation of diluted earnings per share	**1,609**	1,277

[1] The Convertible Preference Securities have been included in diluted earnings per share weighted for the period through their date of redemption, to the extent to which they were dilutive based on the conversion features measured at their date of redemption.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 6
Earnings per share continued

	Consolidated 2015	Consolidated 2014
	Number of shares	
Total weighted average number of externally held ordinary shares used in the calculation of basic earnings per share	**298,056,554**	306,081,657
Weighted average number of shares used in the calculation of diluted earnings per share		
Weighted average fully paid externally held ordinary shares	**298,056,554**	306,081,657
Potential ordinary shares:		
Weighted average options	**2,720**	38,425
Weighted average Macquarie Bank Capital Notes	**2,750,600**	–
Weighted average Macquarie Group Capital Notes	**7,970,512**	8,837,685
Weighted average Exchangeable Capital Securities	**4,546,959**	5,067,970
Weighted average unvested MEREP awards	**18,965,134**	22,645,659
Weighted average Macquarie Convertible Preference Securities[1]	**–**	3,222,037
Total weighted average number of externally held ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**332,292,479**	345,893,433

[1] The Convertible Preference Securities have been included in diluted earnings per share weighted for the period through their date of redemption, to the extent to which they were dilutive based on the conversion features measured at their date of redemption.

Macquarie Group Employee Retained Equity Plan

In December 2009, the Company's shareholders approved the implementation of the MEREP.

Vested MEREP awards are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of vesting.

Unvested MEREP awards are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent they are dilutive. Included in the balance of weighted average unvested MEREP awards are 3,278,643 (2014: 3,884,630) awards that were vested, lapsed or cancelled during the period. As at 31 March 2015, a further 22,253 (2014: 48,518) MEREP awards have not been included in the balance of weighted average unvested MEREP awards on the basis that they are not considered to be dilutive.

Exchangeable Shares

The exchangeable shares on issue (refer Note 28 – 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.

Exchangeable Capital Securities

Exchangeable Capital Securities (ECS) (refer to Note 27 – Loan capital) have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings per share.

Macquarie Group Capital Notes

Macquarie Group Capital Notes (MCN) (refer to Note 27 – 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. The securities have not been included in the determination of basic earnings per share.

Macquarie Bank Capital Notes

Macquarie Bank Capital Notes (BCN) (refer to Note 27 – 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. The securities have not been included in the determination of basic earnings per share.

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 7

Receivables from financial institutions

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Cash and other receivables[(1)]	**10,732**	8,695	**–**	–
Cash collateral on securities borrowed and reverse repurchase agreements[(2)]	**17,973**	10,762	**–**	–
Total receivables from financial institutions	**28,705**	19,457	**–**	–

(1) Included within this balance is $62 million (2014: $64 million) provided as security over payables to other financial institutions.

(2) The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral held as at 31 March 2015 is $19,800 million (2014: $11,679 million).

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

Note 8

Trading portfolio assets

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Equities				
Listed	**14,832**	7,990	**–**	–
Unlisted	**63**	33	**–**	–
Commodities	**6,035**	4,506	**–**	–
Commonwealth government securities	**4,199**	5,707	**–**	–
Corporate loans and securities	**2,653**	2,190	**–**	–
Foreign government securities	**1,377**	1,756	**–**	–
Treasury notes	**1,133**	173	**–**	–
Other[(1)]	**114**	107	**–**	–
Total trading portfolio assets[(2),(3)]	**30,406**	22,462	**–**	–

(1) Included in this balance are promissory notes, bank bills and other government securities which include state and local governments and related enterprises, predominantly in Australia.

(2) Included within these balances are assets pledged as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is $915 million (2014: $617 million).

(3) Included within this balance are assets of $5,869 million (2014: $7,470 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 9
Investment securities available for sale

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Equity securities				
Listed	**944**	771	**–**	–
Unlisted	**1,500**	1,234	**–**	–
Debt securities[1],[2]	**6,452**	12,046	**–**	–
Total investment securities available for sale[3]	**8,896**	14,051	**–**	–

(1) Included within this balance is $1,206 million (2014: $3,909 million) of Negotiable Certificates of Deposits (NCD) receivable from financial institutions and $nil (2014: $100 million) of bank bills.
(2) Included within this balance is $941 million (2014: $1,161 million) provided as security over payables to other financial institutions.
(3) Included within this balance is $411 million (2014: $582 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, $2,060 million (2014: $5,805 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

Note 10
Other assets

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Security settlements[1]	**6,722**	6,094	**–**	–
Debtors and prepayments	**5,017**	4,721	**10**	23
Life investment contracts and other unitholder assets	**1,059**	1,113	**–**	–
Income tax receivable	**363**	726	**128**	247
Property held for sale and development	**250**	175	**–**	–
Other	**146**	161	**–**	–
Total other assets[2]	**13,557**	12,990	**138**	270

(1) Security settlements are generally receivable within three working days of the relevant trade date.
(2) Included within this balance is $133 million (2014: $53 million) of assets which are provided as security over amounts payable to other financial institutions.

Of the above amounts, $13,161 million (2014: $12,654 million) and $138 million (2014: $270 million) are expected to be recovered within 12 months of the balance date by the Consolidated Entity and by the Company.

Note 11

Loan assets held at amortised cost

	Consolidated 2015			Consolidated 2014		
	Gross $m	**Individually assessed provision for impairment $m**	**Net $m**	Gross $m	Individually assessed provision for impairment $m	Net $m
Residential mortgage loans	**29,432**	**(14)**	**29,418**	23,107	(13)	23,094
Corporate and commercial lending	**19,871**	**(545)**	**19,326**	16,785	(260)	16,525
Lease and retail financing	**11,586**	**(57)**	**11,529**	11,082	(72)	11,010
Margin money placed	**9,182**	**–**	**9,182**	5,342	–	5,342
Relationship banking mortgages	**2,064**	**–**	**2,064**	1,613	–	1,613
Investment and insurance premium lending	**1,676**	**(5)**	**1,671**	1,450	(14)	1,436
Total loan assets before collective allowance for credit losses	**73,811**	**(621)**	**73,190**	59,379	(359)	59,020
Less collective allowance for credit losses			**(428)**			(308)
Total loan assets held at amortised cost(1),(2),(3)			**72,762**			58,712

(1) Included within this balance are loans of $17,207 million (2014: $14,025 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(2) Included within this balance are other loans of $2,653 million (2014: $3,508 million) pledged as security over issued notes and payables to other external investors and financial institutions.

(3) Included within this balance are loans of $1,854 million (2014: $3,853 million) that are held by either a government-backed securitisation vehicle or financial institutions, and which are pledged as security to note holders. Further, loans of $938 million (2014: $720 million) are pledged under repurchase agreements.

Of the above amounts, $23,262 million (2014: $17,655 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

There are no loan assets held at amortised cost in the Company.

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for the financial year ended 31 March 2015
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Note 11
Loan assets held at amortised cost continued

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Individually assessed provisions for impairment				
Balance at the beginning of the financial year	359	335	–	–
Provided for during the financial year (Note 2)	305	119	–	–
Loan assets written off, previously provided for	(66)	(116)	–	–
Recovery of loans previously provided for (Note 2)	(27)	(11)	–	–
Net transfer from other provisions	–	10	–	–
Impact of foreign currency translation	50	22	–	–
Balance at the end of the financial year	621	359	–	–
Individually assessed provisions as a percentage of total gross loan assets	0.84%	0.60%	–	–
Collective allowance for credit losses				
Balance at the beginning of the financial year	308	240	–	–
Provided for during the financial year (Note 2)	91	58	–	–
Acquisitions during the period	14	–	–	–
Net transfer (to)/from other provisions	(4)	1	–	–
Impact of foreign currency translation	19	9	–	–
Balance at the end of the financial year	428	308	–	–

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

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

	Consolidated 2015			Consolidated 2014		
	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m
No later than one year	1,998	(209)	1,789	1,812	(219)	1,593
Later than one year and no later than five years	3,783	(407)	3,376	4,523	(531)	3,992
Later than five years	242	(73)	169	269	(79)	190
Total finance lease receivables	6,023	(689)	5,334	6,604	(829)	5,775

Note 12

Impaired financial assets

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Impaired debt investment securities available for sale before individually assessed provisions for impairment	3	7	–	–
Less individually assessed provisions for impairment	(3)	(6)	–	–
Debt investment securities available for sale after individually assessed provisions for impairment	–	1	–	–
Impaired loan assets and other financial assets before individually assessed provisions for impairment	1,343	848	–	–
Less individually assessed provisions for impairment	(716)	(434)	–	–
Loan assets and other financial assets after individually assessed provisions for impairment	627	414	–	–
Total net impaired financial assets	627	415	–	–

Note 13

Other financial assets at fair value through profit or loss

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Investment securities				
Equity securities	1,076	1,342	–	–
Debt securities	404	538	–	–
Loan assets	645	974	–	–
Total other financial assets at fair value through profit or loss(1)	2,125	2,854	–	–

(1) Included within this balance is $611 million (2014: $867 million) provided as security over payables to other financial institutions.

Of the above amounts, $723 million (2014: $1,222 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

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Note 14
Property, plant and equipment

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Assets for own use				
Land and buildings				
Cost	**307**	290	**–**	–
Less accumulated depreciation	**(11)**	(8)	**–**	–
Total land and buildings	**296**	282	**–**	–
Furniture, fittings and leasehold improvements				
Cost	**724**	584	**–**	–
Less accumulated depreciation	**(467)**	(396)	**–**	–
Total Furniture, fittings and leasehold improvements	**257**	188	**–**	–
Equipment				
Cost	**145**	163	**–**	–
Less accumulated depreciation	**(102)**	(142)	**–**	–
Total equipment	**43**	21	**–**	–
Infrastructure assets				
Cost	**164**	100	**–**	–
Less accumulated depreciation	**(5)**	(4)	**–**	–
Total infrastructure assets	**159**	96	**–**	–
Total assets for own use	**755**	587	**–**	–
Assets under operating lease				
Aviation				
Cost	**5,473**	4,062	**–**	–
Less accumulated depreciation	**(947)**	(618)	**–**	–
Total aviation	**4,526**	3,444	**–**	–
Meters				
Cost	**1,200**	1,036	**–**	–
Less accumulated depreciation	**(423)**	(252)	**–**	–
Total meters	**777**	784	**–**	–
Rail cars				
Cost	**808**	1,282	**–**	–
Less accumulated depreciation	**(64)**	(95)	**–**	–
Total rail cars	**744**	1,187	**–**	–
Others				
Cost	**411**	429	**–**	–
Less accumulated depreciation	**(134)**	(120)	**–**	–
Total others	**277**	309	**–**	–
Total assets under operating lease	**6,324**	5,724	**–**	–
Total property, plant and equipment	**7,079**	6,311	**–**	–

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

Note 14

Property, plant and equipment continued

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

Assets for own use	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Balance at 1 April 2013	178	296	22	12	508
Acquisitions	101	53	18	93	265
Disposals	–	(109)	(1)	–	(110)
Reclassification	6	(2)	–	(4)	–
Impairments	(2)	–	–	–	(2)
Foreign exchange movements	1	31	2	(4)	30
Depreciation expense (Note 2)	(2)	(81)	(20)	(1)	(104)
Balance at 31 March 2014	**282**	**188**	**21**	**96**	**587**
Acquisitions	**60**	**77**	**36**	**178**	**351**
Disposals	**(4)**	**(2)**	**–**	**(121)**	**(127)**
Reclassification	**(40)**	**42**	**–**	**–**	**2**
Impairments	**–**	**–**	**–**	**1**	**1**
Foreign exchange movements	**2**	**15**	**2**	**10**	**29**
Depreciation expense (Note 2)	**(4)**	**(63)**	**(16)**	**(5)**	**(88)**
Balance at 31 March 2015	**296**	**257**	**43**	**159**	**755**

Included in the balance of property, plant and equipment are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $5 million (2014: $13 million).

Assets under operating lease	Aviation $m	Meters $m	Rail cars $m	Other $m	Total $m
Balance at 1 April 2013	3,146	660	1,058	271	5,135
Acquisitions	110	176	1	90	377
Disposals	(5)	(1)	(20)	(14)	(40)
Reclassification	(3)	(104)	–	5	(102)
Foreign exchange movements	389	148	192	26	755
Depreciation expense (Note 2)	(193)	(95)	(44)	(69)	(401)
Balance at 31 March 2014	**3,444**	**784**	**1,187**	**309**	**5,724**
Acquisitions	**633**	**104**	**3**	**155**	**895**
Disposals	**(48)**	**–**	**(476)**	**(40)**	**(564)**
Reclassification[(1)]	**(46)**	**(67)**	**–**	**(101)**	**(214)**
Impairments	**(24)**	**–**	**–**	**–**	**(24)**
Foreign exchange movements	**772**	**63**	**71**	**41**	**947**
Depreciation expense (Note 2)	**(205)**	**(107)**	**(41)**	**(87)**	**(440)**
Balance at 31 March 2015	**4,526**	**777**	**744**	**277**	**6,324**

Included in the balance of operating leases are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $323 million (2014: $442 million).

(1) Includes reclassification of operating lease to finance lease as a result of lease re-negotiations.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 14
Property, plant and equipment continued

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Assets under operating lease				
Not later than one year	732	597	–	–
Later than one year and no later than five years	1,390	1,145	–	–
Later than five years	215	138	–	–
Total future minimum lease payments receivable	2,337	1,880	–	–

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Loans and investments without provisions for impairment	1,918	2,074	–	–
Loans and investments with provisions for impairment	1,090	1,052	–	–
Less provisions for impairment	(680)	(679)	–	–
Loans and investments at recoverable amount	410	373	–	–
Total interests in associates and joint ventures accounted for using the equity method[1]	2,328	2,447	–	–

[1] Included within this balance is $2,159 million (2014: $2,252 million) relating to interests in associates and $169 million (2014: $195 million) relating to interests in joint ventures. All of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity.

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Consolidated Entity's share of:				
Profit or loss from continuing operations	5	141	–	–
Post-tax profit or loss from discontinued operations	–	8	–	–
Other comprehensive income	(6)	19	–	–
Total comprehensive income	(1)	168	–	–

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Share incurred jointly with other investors	–	17	–	–
For which the Consolidated Entity is severally liable	–	19	–	–

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 16
Intangible assets

Goodwill	**580**	653	**–**	–
Intangible assets with indefinite lives	**293**	242	**–**	–
Customer and servicing contracts	**89**	119	**–**	–
Other identifiable intangible assets	**202**	207	**–**	–
Total intangible assets	**1,164**	1,221	**–**	–

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

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

	Goodwill $m	Intangible assets with indefinite lives $m	Customer and servicing contracts $m	Other identifiable intangible assets $m	Total $m
Balance at 1 April 2013	613	243	121	244	1,221
Acquisitions	20	–	–	41	61
Reclassifications	2	–	5	(6)	1
Adjustments to purchase consideration	1	–	–	3	4
Disposals	(49)	(28)	–	(38)	(115)
Impairment	–	–	(1)	(20)	(21)
Amortisation expense (Note 2)	–	–	(23)	(43)	(66)
Currency translation difference	66	27	17	26	136
Balance at 31 March 2014	**653**	**242**	**119**	**207**	**1,221**
Acquisitions	**–**	**–**	**–**	**105**	**105**
Reclassifications	**9**	**–**	**(9)**	**–**	**–**
Disposals	**(68)**	**–**	**(9)**	**(38)**	**(115)**
Impairment	**(120)**	**–**	**(11)**	**(10)**	**(141)**
Amortisation expense (Note 2)	**–**	**–**	**(19)**	**(76)**	**(95)**
Currency translation difference	**106**	**51**	**18**	**14**	**189**
Balance at 31 March 2015	**580**	**293**	**89**	**202**	**1,164**

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Note 17
Investments in subsidiaries

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Investments at cost without provisions for impairment	–	–	12,047	11,096
Investments at cost with provisions for impairment	–	–	14,070	14,058
Less provisions for impairment (Note 1(xxviii))	–	–	(10,246)	(11,517)
Investments at recoverable amount[1]	–	–	3,824	2,541
Total investments in subsidiaries	–	–	15,871	13,637

[1] The recoverable amount has been estimated using valuation techniques which incorporate the subsidiary's consolidated earnings and Macquarie's price earnings multiple.

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

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

- Delaware Investments Management Company, LLC (United States)
- Delaware Management Holdings, Inc. (United States)
- Macquarie Aerospace Limited (Bermuda)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Affiliated Managers Holdings (USA) Inc. (United States)
- Macquarie Agricultural Funds Management Ltd (Australia)
- Macquarie Alpine Inc. (United States)
- Macquarie Alternative Assets Management Limited (Australia)
- Macquarie America Holdings Inc. (United States)
- Macquarie Americas Holdings Pty Ltd (Australia)
- Macquarie Australia Pty Limited (Australia)
- Macquarie B.H. Pty Ltd (Australia)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited (Australia)
- Macquarie BFS Holdings Ltd. (Canada)
- Macquarie Capital (Australia) Limited (Australia)
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Capital (Singapore) Pte Limited (Singapore)
- Macquarie Capital Group Limited (Australia)
- Macquarie Capital International Holdings Pty Limited (Australia)
- Macquarie Capital Securities (Mauritius) Limited (Mauritius)
- Macquarie Capital Securities (Singapore) Pte Limited (Singapore)
- Macquarie Capital Securities Limited (Hong Kong)
- Macquarie Corporate and Asset Finance Limited (Australia)
- Macquarie Credit Nexus Holdings Limited (Cayman Islands)
- Macquarie Energy LLC (United States)
- Macquarie FG Holdings Inc. (United States)
- Macquarie FICC (UK) Limited (United Kingdom)
- Macquarie FICC Holdings USA Inc. (United States)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Holdings Limited (Australia)
- Macquarie Financial Ltd./Financiere Macquarie Ltee. (Canada)
- Macquarie Financial Markets LLC (United States)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Funding Holdings LLC (United States)
- Macquarie Funds Management Holdings Pty Limited (Australia)
- Macquarie Group Employee Retained Equity Plan (MEREP Trust) (Australia)
- Macquarie Group Services Australia Pty Ltd (Australia)
- Macquarie Holdings (U.S.A.) Inc. (United States)
- Macquarie Infrastructure and Real Assets (Europe) Limited (United Kingdom)
- Macquarie Infrastructure and Real Assets Inc. (United States)
- Macquarie Infrastructure Funds Management Pty Limited (Australia)
- Macquarie Infrastructure Management (Asia) Pty Limited (Australia)
- Macquarie Infrastructure Management (USA) Inc (United States)
- Macquarie Investment Management Ltd (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Prism Pty Limited (Australia)
- Macquarie Sct Pty Limited (Australia)
- Macquarie Securities South Africa Limited (South Africa)
- Macquarie Services (USA) LLC (United States)
- Macquarie TCG (USA) LLC (United States)
- Macquarie US Gas Supply LLC (United States)
- Meadowlark Capital LLC (United States)
- MIHI LLC (United States).

Note: The country of incorporation has been stated in brackets next to the name of the entity, unless otherwise stated.

Overseas subsidiaries conduct business predominantly in their place of incorporation, unless otherwise stated.

Beneficial interest in all material entities is 100 percent.

All material entities have a 31 March reporting date.

In accordance with ASIC instruments 12-0250, 12-1311, 13-0151, 13-0394 and 13-0500, Macquarie Group has been granted relief under section 340 of the *Corporations Act 2001* (Cth) from synchronising the year-end of the following entities that are in its consolidated group:

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

This is of no consequence to the consolidation as, while the year-ends of the above entities are different to that of Macquarie Group, the results and balances included in the consolidation are at the reporting date of 31 March.

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 18

Deferred tax assets/(liabilities)

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
The balance comprises temporary differences attributable to:				
Other assets and liabilities	**991**	622	**40**	16
Tax losses	**517**	491	**19**	77
Fixed assets	**89**	108	**–**	–
Set-off of deferred tax liabilities	**(723)**	(455)	**–**	50
Total deferred tax assets	**874**	766	**59**	143
Investments	**(55)**	153	**–**	–
Intangible assets	**(135)**	(137)	**–**	–
Other assets and liabilities	**(239)**	(193)	**–**	–
Leasing and financial instruments	**(758)**	(829)	**–**	50
Set-off of deferred tax assets	**723**	455	**–**	(50)
Total deferred tax liabilities	**(464)**	(551)	**–**	–
Net deferred tax assets	**410**	215	**59**	143

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

Potential tax assets of approximately $104 million (2014: $33 million) attributable to tax losses carried forward by subsidiaries have not been brought to account in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable.

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

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

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	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 19
Trading portfolio liabilities

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Listed equity securities	4,525	1,888	–	–
Foreign government securities	336	363	–	–
Corporate securities	309	396	–	–
Commodities	125	115	–	–
Total trading portfolio liabilities	**5,295**	2,762	–	–

Note 20
Deposits

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Interest bearing deposits				
Call	30,308	26,225	–	–
Term	8,146	9,491	18	33
Client monies, segregated fund and margin money held	7,728	5,527	–	–
Non-interest bearing deposits	1,204	1,158	–	–
Total deposits	**47,386**	42,401	**18**	33

Note 21
Other liabilities

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Due to brokers and customers	6,790	6,343	–	–
Creditors	4,706	4,269	–	6
Accrued charges and sundry provisions	2,430	1,921	66	68
Life investment contracts and other unitholder liabilities	1,004	1,084	–	–
Income tax payable	650	74	2	–
Other	250	217	–	–
Total other liabilities	**15,830**	13,908	**68**	74

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

Note 22
Payables to financial institutions

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Cash collateral on securities lent and repurchase agreements	12,018	13,564	–	–
OECD banks	4,691	4,128	2,566	1,307
Other	1,936	1,962	–	–
Total payables to financial institutions	**18,645**	19,654	**2,566**	1,307

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Credit linked notes	1,064	297	–	–
Equity linked notes	420	1,084	–	–
Debt issued at fair value	142	83	–	–
Total other financial liabilities at fair value through profit or loss	**1,626**	1,464	–	–

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 24

Debt issued at amortised cost

Debt issued at amortised cost[1]	**61,463**	45,565	**6,179**	6,265
Total debt issued at amortised cost	**61,463**	45,565	**6,179**	6,265

(1) Included within this balance are amounts payable to SPE note holders and debt holders of $15,952 million (2014: $12,732 million).

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

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

(In Australian dollar equivalent):

United States dollars	**34,059**	23,912	**5,639**	5,710
Australian dollars	**15,206**	12,056	**22**	65
Euro	**4,073**	1,691	**–**	–
Great British pounds	**3,519**	1,090	**–**	–
Canadian dollars	**1,949**	3,932	**–**	–
Swiss franc	**1,717**	1,138	**–**	–
Japanese yen	**1,318**	1,998	**518**	490
South African rand	**531**	636	**–**	–
Hong Kong dollars	**205**	174	**–**	–
Norwegian Krone	**162**	–	**–**	–
Yuan Renminbi	**140**	–	**–**	–
Korean won	**124**	262	**–**	–
Singapore dollars	**56**	104	**–**	–
Others	**30**	36	**–**	–
Total by currency	**63,089**	47,029	**6,179**	6,265

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.

Note 25

Provisions

Provision for annual leave	**113**	109	**–**	–
Provision for long service leave	**85**	81	**–**	–
Provision for other employee entitlements	**16**	9	**–**	–
Provision for dividends	**6**	6	**–**	–
Total provisions	**220**	205	**–**	–

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

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continued

Note 26
Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A subsidiary of the Company, MBL, is accredited by APRA to apply the Basel III Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book.

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 mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations. Level 3 consists of the Level 2 group plus the non-bank group.

APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of capital to risk weighted assets (RWA) of 8 percent at both Level 1 and Level 2, with at least 6 percent of this capital in the form of Tier 1 capital and at least 4.5 percent of this minimum capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. At the Level 3 group, which involves the Non-Operating Holding Company structure, APRA has imposed minimum regulatory capital requirements calculated as the sum of the dollar value of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of RWA plus Tier 1 deductions using prevailing APRA ADI Prudential Standards, and
- the non-bank group capital requirement, using the Consolidated Entity's ECAM. Transactions internal to the Consolidated Entity are excluded.

The Consolidated Entity's Level 3 eligible capital consists of ordinary equity, certain reserves and hybrid instruments. The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity has satisfied all internally and externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the year.

Note 27

Loan capital

Subordinated debt

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

Macquarie Preferred Membership Interests

On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued $US400 million of $US denominated Preferred Membership Interests (Macquarie PMI). These instruments are non-cumulative and unsecured equity interests in the issuer. They are redeemable at the Company's option, subject to various conditions, on any distribution date from 2 December 2015, and are non-dilutive, as they will only exchange to a fixed number of MGL preference shares in specified circumstances, and mandatorily on 26 November 2035.

The Macquarie PMI bear discretionary fixed-rate coupons at 8.375 percent per annum, paid semi-annually. If coupons are not paid, the Company will be restricted from paying dividends or returning capital on ordinary shares until two full coupon payments have been made.

The total number of MGL preference shares that would be issued if Macquarie PMI were exchanged at 31 March 2015 would be 400,000 (31 March 2014: 400,000).

Exchangeable Capital Securities

On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of ECS.

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

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid ordinary shares of the Company on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or the Company), where MBL's common equity Tier 1 capital ratio falls below 5.125 percent, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of the Company's ordinary shares will be issued at a 5 percent discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange.

No ECS were exchanged during the financial year. The total number of ordinary shares that would be issued if ECS were exchanged at 31 March 2015 would be 4,546,959 (31 March 2014: 5,067,970). The maximum number of ordinary shares that can be issued on an exchange is 17,689,525.

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

As at 31 March 2015, the remaining principal liability related to the ECS was $US250 million (31 March 2014: $US250 million).

Macquarie Group Capital Notes

On 7 June 2013, the Company issued six million MCN at face value of $100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

MCN may also be exchanged into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 7 June 2021. The MCN may also be exchanged earlier on an acquisition event (where a person acquires control of the Company) or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, MCN Holders will receive up to approximately $101 worth of ordinary shares per MCN held. The total number of ordinary shares that would be issued if MCN were exchanged at 31 March 2015 would be 7,970,512 (31 March 2014: 10,824,861). The maximum number of ordinary shares that can be issued on an exchange is 70,721,358.

The MCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 4.00 percent per annum, adjusted for franking credits, paid semi-annually. If interest is not paid on the MCN, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 27
Loan capital continued

Macquarie Bank Capital Notes

On 8 October 2014, Macquarie Bank Limited, a subsidiary of the Company, issued 4.3 million BCN at face value of $100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

BCN may also be exchanged into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 24 March 2023. The BCN may also be exchanged earlier on an acquisition event (where a person acquires control of the Company or MBL) or where APRA determines Macquarie Bank Limited would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, BCN Holders will receive up to approximately $101 worth of ordinary shares per BCN held. The total number of ordinary shares that would be issued if BCN were exchanged at 31 March 2015 would be 5,704,369. The maximum number of ordinary shares that can be issued on an exchange is 37,056,481.

The BCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 3.30 percent per annum, adjusted for franking credits, paid semi-annually. If interest is not paid on the BCN, Macquarie Bank Limited will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 27

Loan capital continued

Maturity and currency profiles of loan capital instruments

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Less than 12 months	**104**	92	**11**	10
21 September 2020	**953**	968	**–**	–
7 April 2021	**1,461**	1,160	**–**	–
Subordinated debt	**2,518**	2,220	**11**	10
Instruments with conditional repayment obligations:				
MCN	**600**	600	**600**	600
Macquarie PMI	**526**	431	**–**	–
BCN	**430**	–	**–**	–
ECS	**329**	270	**–**	–
Loan capital	**4,403**	3,521	**611**	610
Less directly attributable issue cost	**(19)**	(14)	**(8)**	(9)
Total loan capital[(1)]	**4,384**	3,507	**603**	601

Reconciliation of subordinated debt by major currency:
(In Australian dollar equivalent)

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
United States dollars	**2,382**	1,915	**–**	–
Australian dollars	**1,042**	610	**611**	610
Euro	**979**	996	**–**	–
Loan capital	**4,403**	3,521	**611**	610
Less directly attributable issue cost	**(19)**	(14)	**(8)**	(9)
Total loan capital[(1)]	**4,384**	3,507	**603**	601

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

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

In accordance with APRA guidelines, MBL includes the applicable portion of the subordinated debt as Tier 2 capital and the ECS as Additional Tier 1 capital.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 28
Contributed equity

	Consolidated 2015 Number of shares	Consolidated 2014 Number of shares	Consolidated 2015 $m	Consolidated 2014 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**321,074,750**	339,506,578	**6,075**	6,882
Issue of shares on exercise of options	**67,664**	423,159	**3**	12
Issue of shares on exercise of MEREP awards	**28,072**	65,141	**2**	3
Issue of shares pursuant to Dividend Reinvestment Plan (DRP) at $57.79 per share	**2,967,273**	–	**171**	–
Issue of shares pursuant to Employee Share Plan (ESP) at $59.27 per share	**16,080**	–	**1**	–
Issue of shares pursuant to Institutional Private Placement at $73.50 per share	**6,802,722**	–	**500**	–
Issue of shares pursuant to Share Purchase Plan (SPP) at $73.50 per share	**2,312,714**	–	**170**	–
Issue of shares on retraction of exchangeable shares	**188,502**	147,840	**10**	9
Capital reduction through SYD distribution[(1)]	**–**	–	**–**	(803)
Consolidation of one ordinary share into 0.9438 ordinary share[(1)]	**–**	(19,067,968)	**–**	–
For employee MEREP awards that have vested and forfeited, and options exercised during the financial year:				
Transfer of MEREP expense from share-based payments reserve	**–**	–	**242**	195
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	**–**	–	**31**	14
Transfer from treasury shares for shares withdrawn	**–**	–	**(285)**	(237)
Transfer from share-based payment capital reduction reserve	**–**	–	**(19)**	–
Closing balance of fully paid ordinary shares	**333,457,777**	321,074,750	**6,901**	6,075

(1) Represents SYD Distribution to ordinary shareholders recognised as return of ordinary share capital and consolidation of ordinary shares on SYD Securities distribution. Refer Note 5 – Dividends and distribution paid or provided for.

	Company 2015 Number of shares	Company 2014 Number of shares	Company 2015 $m	Company 2014 $m

Note 28

Contributed equity continued

	Company 2015 Number of shares	Company 2014 Number of shares	Company 2015 $m	Company 2014 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**321,074,750**	339,506,578	**8,841**	9,652
Issue of shares on exercise of options	**67,664**	423,159	**3**	12
Issue of shares on exercise of MEREP awards	**28,072**	65,141	**2**	3
Issue of shares pursuant to Dividend Reinvestment Plan (DRP) at $57.79 per share	**2,967,273**	–	**171**	–
Issue of shares pursuant to Employee Share Plan (ESP) at $59.27 per share	**16,080**	–	**1**	–
Issue of shares pursuant to Institutional Private Placement at $73.50 per share	**6,802,722**	–	**500**	–
Issue of shares pursuant to Share Purchase Plan (SPP) at $73.50 per share	**2,312,714**	–	**170**	–
Issue of shares on retraction of exchangeable shares	**188,502**	147,840	**11**	9
Capital reduction through SYD distribution(1)	**–**	–	**–**	(793)
Consolidation of one ordinary share into 0.9438 ordinary share(1)	**–**	(19,067,968)	**–**	–
For employee MEREP awards that have vested and forfeited, and options exercised during the financial year:				
Transfer of MEREP expense from share-based payments reserve	**–**	–	**242**	195
Transfer from treasury shares for shares withdrawn	**–**	–	**(285)**	(237)
Transfer from share-based payment capital reduction reserve	**–**	–	**(19)**	–
Closing balance of fully paid ordinary shares	**333,457,777**	321,074,750	**9,637**	8,841

(1) Represents SYD Distribution to ordinary shareholders recognised as return of ordinary share capital and consolidation of ordinary shares on SYD Securities distribution. Refer Note 5 – Dividends and distribution paid or provided for. Disclosures regarding the Company's DRP are included in Note 5 – Dividends and distributions paid or provided for.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 28
Contributed equity continued

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Treasury shares				
Opening balance of 26,011,106 (1 April 2013: 28,981,801) treasury shares[(1)]	**(990)**	(1,011)	**(989)**	(1,010)
Purchase of 4,461,905 (31 March 2014: 4,969,737) shares for employee MEREP awards	**(266)**	(216)	**(266)**	(216)
Transfer of 7,228,889 (31 March 2014: 6,345,371) shares withdrawn/exercised for vested MEREP awards	**285**	237	**285**	237
Consolidation of one treasury share into 0.9438 treasury share resulting in a reduction of 1,595,061 treasury shares in 2014	**–**	–	**–**	–
Purchase of nil (31 March 2014: 1,866,577) shares for DRP share issue by the Company	**–**	(81)	**–**	(81)
Allocation of nil (31 March 2014: 1,866,577) shares under DRP scheme by the Company	**–**	81	**–**	81
Purchase of 1,049,203 (31 March 2014: 702,614) shares for DRP share issue by the consolidated entity	**(63)**	(39)	**–**	–
Allocation of 1,049,203 (31 March 2014: 702,614) shares under DRP scheme by the consolidated entity	**63**	39	**–**	–
Closing balance of 23,244,122 (31 March 2014: 26,011,106) treasury shares[(1)]	**(971)**	(990)	**(970)**	(989)

(1) In December 2009, the Company introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff. Under MEREP the staff retained profit share is held in the shares of the Company by 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 33 – Employee equity participation.

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Exchangeable shares				
Opening balance of 447,562 (1 April 2013: 604,206) exchangeable shares	**27**	36	**–**	–
Retraction of 199,679 (31 March 2014: 147,840) exchangeable shares, exchangeable to shares in MGL[(1)]	**(10)**	(9)	**–**	–
Cancellation of 2,428 (31 March 2014: 8,804) exchangeable shares	**–**	–	**–**	–
Closing balance of 245,455 (31 March 2014: 447,562) exchangeable shares	**17**	27	**–**	–

(1) The exchangeable shares were issued by a subsidiary as consideration for the acquisitions of Tristone Capital Global Inc. and Orion Financial Inc. and are classified as equity in accordance with AASB 132 Financial Instruments: Presentation. As per terms of the original agreement, they were eligible to be exchanged on a one-for-one basis for shares in MGL (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to MGL dividends during their legal life. However, subsequent to the approval of consolidation of Macquarie ordinary shares by Macquarie's shareholders on 12 December 2013, the terms of the agreement have been modified to a 0.9438-for-one basis for shares in MGL.

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Contributed equity	**5,947**	5,112	**8,667**	7,852

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 29

Reserves, retained earnings and non-controlling interests

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**(313)**	(895)	**–**	–
Currency translation differences arising during the financial year, net of hedge and tax	**868**	582	**–**	–
Balance at the end of the financial year	**555**	(313)	**–**	–
Available for sale reserve				
Balance at the beginning of the financial year	**385**	313	**–**	–
Revaluation movement for the financial year, net of tax	**166**	311	**–**	–
Transfer to income statement for impairment, net of tax	**46**	64	**–**	–
Transfer to income statement on realisation, net of tax	**(154)**	(303)	**–**	–
Balance at the end of the financial year	**443**	385	**–**	–
Share-based payments reserve				
Balance at the beginning of the financial year	**683**	688	**631**	675
MEREP expense for the financial year	**319**	257	**–**	–
Additional deferred tax benefit on MEREP expense	**67**	53	**–**	–
MEREP issued to employees of subsidiaries (Note 31)	**–**	–	**319**	257
Transfer to retained earnings in respect of expired and lapsed options and forfeited MEREP awards	**–**	(97)	**–**	(97)
Transfer to other liabilities on vesting of MEREP awards and exercise of options[1]	**(1)**	(9)	**(1)**	(9)
Transfer to share capital on vesting of MEREP awards and exercise of options	**(242)**	(195)	**(242)**	(195)
Transfer of additional deferred tax benefit to share capital on vesting of MEREP awards	**(31)**	(14)	**–**	–
Balance at the end of the financial year	**795**	683	**707**	631
Share-based payments capital reduction reserve[2]				
Balance at the beginning of the financial year	**(72)**	–	**(72)**	–
SYD Distribution to MEREP holders	**–**	(72)	**–**	(72)
Transfer to share capital related to vested and forfeited awards	**19**	–	**19**	–
Balance at the end of the financial year	**(53)**	(72)	**(53)**	(72)
Cash flow hedging reserve				
Balance at the beginning of the financial year	**(28)**	(49)	**–**	–
Revaluation movement for the financial year, net of tax	**(56)**	21	**–**	–
Balance at the end of the financial year	**(84)**	(28)	**–**	–
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	**14**	–	**–**	–
Share of other comprehensive (expense)/income of associates and joint ventures, net of tax	**(14)**	14	**–**	–
Balance at the end of the financial year	**–**	14	**–**	–
Total reserves at the end of the financial year	**1,656**	669	**654**	559
Retained earnings				
Balance at the beginning of the financial year (Note 1(xxviii))	**5,637**	5,439	**5,204**	3,543
Profit attributable to ordinary equity holders of MGL	**1,604**	1,265	**2,581**	2,708
Dividends paid on ordinary share capital (Note 5)	**(931)**	(1,159)	**(921)**	(1,144)
Transfer from share based payments reserves in respect of expired and lapsed options and forfeited MEREP awards	**–**	97	**–**	97
Change in non-controlling ownership interest	**(4)**	(5)	**–**	–
Balance at the end of the financial year	**6,306**	5,637	**6,864**	5,204

(1) Represents vested MEREP awards settled through cash.

(2) Represents SYD Distribution to the unvested MEREP holders recognised as return of ordinary share capital on SYD Securities distribution. Refer Note 5 – Dividends and distributions paid or provided for.

Notes to the financial statements
for the financial year ended 31 March 2015
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Note 29
Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Securities

The MIS issued by MBL were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 percent per annum (2014: 1.7 percent per annum). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

Macquarie Income Preferred Securities

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 percent (2014: 6.177 percent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and 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 percent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. The first coupon was paid on 15 April 2005. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Macquarie Income Securities				
4,000,000 Macquarie Income Securities of $100 each	400	400	–	–
Less transaction costs for original placement	(9)	(9)	–	–
Total Macquarie Income Securities	391	391	–	–
Macquarie Income Preferred Securities				
Proceeds on issue of Macquarie Income Preferred Securities	109	109	–	–
Less issue costs	(1)	(1)	–	–
	108	108	–	–
Foreign currency translation reserve	(26)	(32)	–	–
Total Macquarie Income Preferred Securities	82	76	–	–
Other non-controlling interests				
Ordinary share capital	16	28	–	–
Preference share capital	2	2	–	–
Foreign currency translation reserve	3	–	–	–
Retained earnings	(7)	(1)	–	–
Total other non-controlling interests	14	29	–	–
Total non-controlling interests	487	496	–	–

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 30

Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Receivables from financial institutions[1]	**10,681**	8,362	**–**	–
Trading portfolio assets[2]	**1,155**	538	**–**	–
Debt securities[3]	**1,129**	4,208	**–**	–
Loan asset at amortised cost[4]	**4,008**	2,432	**–**	–
Cash and cash equivalents at the end of the financial year [5]	**16,973**	15,540	**–**	–

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.
(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.
(3) Includes short-term debt securities.
(4) Includes amounts due from clearing houses.
(5) Cash and cash equivalents include $5,643 million (2014: $4,172 million) held by collaterised securitisation vehicles in segregated deposit fund and escrow accounts which are restricted for use.

Reconciliation of profit after income tax to net cash flows from/(used in) operating activities

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Profit after income tax	**1,623**	1,279	**2,581**	2,708
Adjustments to profit after income tax:				
Depreciation and amortisation	**623**	571	**–**	–
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(566)**	(301)	**–**	–
Provision and impairment charge on financial and non-financial assets	**847**	524	**–**	–
Impairment reversal in subsidiary	**–**	–	**(1,271)**	(1,648)
Interest on available for sale financial assets	**(299)**	(198)	**–**	–
Non-cash dividend received	**–**	–	**–**	(318)
Net gains on sale of investment securities available for sale, associates and joint ventures and operating lease assets	**(745)**	(530)	**–**	19
Share-based payments expense	**319**	264	**–**	–
Share of net profits of associates and joint ventures accounted for using the equity method	**(5)**	(149)	**–**	–
Changes in assets and liabilities:				
Change in amount due from subsidiaries under tax funding agreement	**–**	–	**390**	(283)
Change in dividends receivable	**(106)**	(105)	**–**	–
Change in values of associates due to dividends received	**261**	111	**–**	–
Change in fees and non-interest income receivable	**(79)**	(148)	**–**	–
Change in fees and commissions payable	**25**	(3)	**–**	–
Change in tax balances	**721**	523	**(242)**	153
Change in provisions for employee entitlements	**14**	(7)	**–**	–
Change in lease assets, net of depreciation, foreign exchange and impairment	**(831)**	(326)	**–**	–
Change in loan assets	**(13,594)**	(7,793)	**(1,339)**	(1,209)
Change in debtors, prepayments, accrued charges and creditors	**1,527**	1,027	**7**	9
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(14,231)**	(3,355)	**–**	–
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**22,083**	8,150	**1,167**	928
Net cash flows (used in)/from operating activities	**(2,413)**	(466)	**1,293**	359

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 31
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. Significant transactions between the Company and its subsidiaries are disclosed below.

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

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

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

The Company as the ultimate parent entity of the Macquarie Group, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in Note 1(vii) – Summary of significant accounting policies. During the year ended 31 March 2015, current tax assets of subsidiaries assumed by MGL as the head entity of the tax consolidated group amounted to $59 million (2014: $241 million). As at 31 March 2015, the amount receivable by the Company under the tax funding agreement with the tax consolidated entities is $1 million (2014: $391 million receivable). This balance is included in Due from subsidiaries in the Company's separate statement of financial position.

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

	Consolidated 2015 $m	Consolidated 2014 $m	**Company 2015 $m**	Company 2014 $m
Interest income received/receivable	**–**	–	**333**	340
Interest expense paid/payable	**–**	–	**(24)**	(14)
Share-based payments to employees of subsidiaries (Note 29)	**–**	–	**(319)**	(257)
Dividends and distributions (Note 2)	**–**	–	**1,273**	1,128
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	**–**	–	**10,361**	8,711
Amounts payable[1]	**–**	–	**(810)**	(866)

[1] As described in Note 1(xxi) – Summary of significant accounting policies, the Company has recognised a liability as at 31 March 2015 of $32 million (2014: $285 million) for amounts received in advance as at 31 March 2015 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.

Outstanding balances are unsecured and are repayable in cash.

Note 31

Related party information continued

Associates and joint ventures

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

During the financial year, the following income/(expense) resulted from transactions with associates and joint ventures:

	Consolidated 2015 $m	Consolidated 2014 $m	**Company 2015 $m**	Company 2014 $m
Interest income received/receivable	**22**	2	**–**	–
Fee and commission income	**1,081**	599	**–**	–
Other income	**–**	2	**–**	–
Dividends and distributions[1]	**272**	101	**–**	–
Brokerage, commission and trading-related expenses	**(7)**	(5)	**–**	–

[1] 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 15 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2015 $m	Consolidated 2014 $m	**Company 2015 $m**	Company 2014 $m
Amounts receivable	**1,824**	488	**–**	–
Amounts payable	**(125)**	(235)	**–**	–

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 2015
continued

Note 32
Key Management Personnel disclosure
Key Management Personnel

The following persons were Directors of the Company during the financial years ended 31 March 2015 and 31 March 2014, unless indicated.

Executive Voting Director

N.W. Moore[1]	Managing Director and Chief Executive Officer (CEO)

Non-Executive Directors

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

Former Non-Executive Directors

P.M. Kirby	(retired on 24 July 2014)
C.B. Livingstone AO	(retired on 25 July 2013)
J.R. Niland AC	(retired on 31 December 2013)
H.M. Nugent AO	(retired on 24 July 2014)

In addition to the Executive Director 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 2015 and 31 March 2014, unless otherwise indicated.

Current Executives[1]

S.D. Allen	Head of RMG
T.C. Bishop	Head of Macquarie Capital
B.A. Brazil	Co-Head of CAF (effective from 1 July 2014)[2]
A.J. Downe	Head of CFM
G.A. Farrell	Co-Head of CAF
M. McLaughlin	Country Head, United States of America
M.J. Reemst	CEO of Macquarie Bank Limited (effective from 1 July 2014)[2]
N. Sorbara	Head of COG
P.C. Upfold	CFO and Head of FMG (effective from 1 July 2014)[2]
S. Vrcelj	Head of MSG
G.C. Ward	Deputy Managing Director and Head of BFS
S. Wikramanayake	Head of MAM

Former Executives

P.J. Maher	Former Head of BFS (ceased to be a member of the Executive Committee on 3 May 2013)

(1) The CEO and all current Executives are members of the Consolidated Entity's Executive Committee as at 8 May 2015.
(2) Refers to the date from which the relevant Executive was determined to be a KMP.

The remuneration arrangements for all of the persons listed above are described in the Remuneration Report, contained in Schedule 2 of the Directors' Report.

Note 32

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for Key Management Personnel (KMP):

	Short-term Employee Benefits				Long-term Employee Benefits	Share-based Payments		
	Salary and fees (including superannuation) $	Performance related remuneration[1] $	Other benefits $	Total short-term Employee Benefits $	Restricted profit share including earnings on restricted profit share[2] $	Equity awards including shares[3] $	PSUs[4] $	Total remuneration $
Executive Remuneration								
2015	**9,068,321**	**40,174,754**	**–**	**49,243,075**	**15,552,907**	**27,094,870**	**15,958,182**	**107,849,034**
2014	7,489,696	23,019,536	–	30,509,232	14,796,950	19,933,068	11,051,129	76,290,379
Non-Executive Remuneration								
2015	**3,574,418**	**–**	**27,900**	**3,602,318**	**–**	**–**	**–**	**3,602,318**
2014	3,598,415	–	55,900	3,654,315	–	–	–	3,654,315

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

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

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

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

Equity holdings 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.

	Number of shares held at 1 April	Number of shares held at appointment/ retirement date (after 1 April)	Shares Consolidation[1]	Shares received on withdrawal from MEREP	Other changes[2]	Number of shares held by former KMP at date of resignation/ retirement (prior to 31 March)	Number of shares held at 31 March
2015	**1,978,695**	**43,796**	**–**	**607,523**	**(356,042)**	**(43,900)**	**2,230,072**
2014	2,088,864	2,169	(118,374)	345,662	(317,858)	(21,768)	1,978,695

(1) Consolidation of one ordinary share into 0.9438 ordinary shares for shares held at the date of consolidation.

(2) Includes on – market acquisitions and disposals.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 32

Key Management Personnel disclosure continued

MEREP RSU Awards of Key Management Personnel and their related parties[1]

The following tables set out details of the MEREP RSU awards held during the year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report from pages 109 and 110. Further details in relation to the MEREP RSU awards are disclosed in Note 33 – Employee equity participation.

	Number of RSU awards held at 1 April	Number of RSU awards held at appointment/ retirement date (after 1 April)	RSU awards granted during the financial year[1]	Vested RSU awards withdrawn from the MEREP during the financial year[2]	RSU awards consolidation[3]	Number of RSU awards held by former KMP at date of resignation/ retirement (prior to 31 March)	Number of RSU awards held at 31 March
2015	**2,394,033**	**681,667**	**448,564**	**(445,920)**	**–**	**–**	**3,078,344**
2014	2,614,253	–	399,339	(288,620)	(142,548)	(188,391)	2,394,033

(1) RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above relate to 2014.
(2) Vested RSUs transferred to the KMP's shareholding.
(3) Consolidation of one ordinary share into 0.9438 ordinary shares for shares held at the date of consolidation.

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 KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report on page 111. Further details in relation to the MEREP PSU awards are disclosed in Note 33 – Employee equity participation.

	Number of PSU awards held at 1 April	PSU awards granted during the financial year[1]	Vested PSU awards exchanged during the financial year	PSU awards not able to be exercised due to performance hurdles not met[2]	PSU awards consolidation during the financial year[3]	Number of PSU awards held by former KMP at date of resignation/ retirement (prior to 31 March)	Number of PSU awards held at 31 March[4]
2015	**1,538,385**	**475,608**	**(161,603)**	**(147,976)**	**–**	**–**	**1,704,414**
2014	1,678,020	463,293	(57,042)	(311,205)	(91,600)	(143,081)	1,538,385

(1) PSUs are granted in the financial year following the year of the Company's performance to which the grant relates. PSUs disclosed as granted above relate to 2014.
(2) Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2014 were partially achieved and therefore some of those PSU awards did not become exercisable and lapsed. These awards are not exchangeable and the related expense previously recognised on these PSU grants was reversed during the current and prior financial years.
(3) Adjustment of PSUs due to consolidation of one ordinary share into 0.9438 ordinary shares for shares held at the date of consolidation.
(4) PSU awards vested and not exercised at 31 March 2015: 11,000 (2014: 6,961).

Note 32

Key Management Personnel disclosure continued

Details of Share – based payment grant dates affecting compensation for the years ending 31 March 2015 and 31 March 2014

Year grant relates to	Type of grant	Grant date Managing Director	All other KMP
2008	Transition awards	3 March 2010	3 March 2010
	Retained DPS	3 March 2010	3 March 2010
2009	Retained DPS	3 March 2010	3 March 2010
	PSUs	3 March 2010	3 March 2010
2010	Retained DPS	13 August 2010	30 June 2010
	PSUs	13 August 2010	13 August 2010
2011	Retained DPS	15 August 2011	15 February 2011 15 April 2011 20 June 2011
	PSUs	15 August 2011	15 August 2011
2012	Retained DPS	15 August 2012	7 June 2012
	PSUs	15 August 2012	15 August 2012
2013	Retained DPS	15 August 2013	25 June 2013
	PSUs	15 August 2013	15 August 2013
2014	Retained DPS	15 August 2014	25 June 2014
	PSUs	15 August 2014	15 August 2014

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April $'000	Interest charged $'000	Write-downs $'000	Closing balance at 31 March $'000[1]
Total for Key Management Personnel and their related parties	**2015**	**600**	**14**	**–**	**559**
	2014	5,706	6	–	600

(1) Number of persons included in the aggregate at 31 March 2015: 1 (2014: 3).

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 33
Employee equity participation

Macquarie Group Employee Retained Equity Plan

The Consolidated Entity continues to operate the MEREP in conjunction with remuneration arrangements. These arrangements included a decrease in the portion of staff profit share paid in cash and an increase in the portion delivered as equity, an increase in the proportion of deferred remuneration and cessation of new option grants under the Macquarie Group Employee Share Option Plan (MGESOP).

Award Types under the MEREP

Restricted Share Units (RSUs)

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

Deferred Share Units (DSUs)

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

Performance Share Units (PSUs)

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

Restricted Shares

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

Note 33

Employee equity participation continued

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

	Number of RSU Awards 2015	Number of RSU Awards 2014
RSUs on issue at the beginning of the financial year	**22,446,790**	24,700,480
Consolidation of one ordinary share into 0.9438 ordinary shares[(1)]	**–**	(1,356,793)
Granted during the financial year	**4,810,937**	5,553,634
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(6,590,000)**	(5,676,173)
Forfeited during the financial year	**(940,900)**	(774,358)
RSUs on issue at the end of the financial year	**19,726,827**	22,446,790
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**4,457**	8,327

The weighted average fair value of the RSU Awards granted during the financial year was $59.75 (2014: $41.06).

	Number of DSU Awards 2015	Number of DSU Awards 2014
DSUs on issue at the beginning of the financial year	**3,917,214**	4,316,880
Adjustment of DSUs due to 0.9438 for one ordinary share consolidation[(1)]	**–**	(246,149)
Granted during the financial year	**810,248**	916,603
Exercised during the financial year	**(1,001,795)**	(878,657)
Forfeited during the financial year	**(93,369)**	(191,463)
DSUs on issue at the end of the financial year	**3,632,298**	3,917,214
DSUs exercisable at the end of the financial year	**539,167**	366,064

The weighted average fair value of the DSU Awards granted during the financial year was $59.67 (2014: $40.84).

	Number of PSU Awards 2015	Number of PSU Awards 2014
PSUs on issue at the beginning of the financial year	**1,792,160**	1,969,394
Adjustment of PSUs due to 0.9438 for one ordinary share consolidation[(1)]	**–**	(106,710)
Granted during the financial year	**475,608**	463,293
Exercised during the financial year	**(223,937)**	(77,663)
Expired during the financial year	**(219,289)**	(456,154)
PSUs on issue at the end of the financial year	**1,824,542**	1,792,160
PSUs exercisable at the end of the financial year	**11,000**	6,961

The weighted average fair value of the PSU Awards granted during the financial year was $47.89 (2014: $41.49).

	Number of Restricted Share Awards 2015	Number of Restricted Share Awards 2014
Restricted shares on issue at the beginning of the financial year	**138,900**	92,558
Consolidation of one ordinary share into 0.9438 ordinary shares[(1)]	**–**	(5,509)
Granted during the financial year	**19,951**	87,239
Released during the financial year	**(87,819)**	(35,388)
Restricted shares on issue at the end of the financial year	**71,032**	138,900

The weighted average fair value of the restricted shares granted during the financial year was $58.49 (2014: $48.39).

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 33
Employee equity participation continued

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

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members, have been granted in the current year in respect of 2014. 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:

- interest rate to maturity: 3.62 percent
- expected vest dates of PSU: 1 July 2017 and 1 July 2018, and
- dividend yield: 5.02 percent per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members), in respect of the current year's performance will be granted in the following financial year, the Consolidated Entity begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using the Company's share price as at 31 March 2015 (and for PSUs, also incorporates an interest rate to maturity of 2.61 percent; expected vest dates of PSU: 1 July 2018 and 1 July 2019; and a dividend yield of 4.76 percent per annum) and the number of equity instruments expected to vest. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

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

For the year ended 31 March 2015, compensation expense relating to the MEREP totalled $340 million (2014: $283 million).

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

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

Note 33

Employee equity participation continued

Vesting periods are as follows:

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

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

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

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

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

For Retained Profit Share Awards representing 2014 retention, the allocation price was the weighted average price of the Shares acquired for the 2014 Purchase Period, which was 14 May 2014 to 25 June 2014 inclusive (excluding the period from 22 May to 3 June 2013). That price was calculated to be $59.56 (2013 retention: $43.56).

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for the financial year ended 31 March 2015
continued

Note 33
Employee equity participation continued

Performance Share Units

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50 percent of the total number of PSUs awarded. Hurdles are periodically examined by the Board Remuneration Committee (BRC) as part of their ongoing review of the remuneration approach, to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2015.

The hurdles are outlined below.

Performance hurdle 1

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

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

Performance hurdle 2

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

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

Other arrangements

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

Compensation expense relating to these awards for the year ended 31 March 2015 was $0.6 million (2014: $0.4 million).

Note 33

Employee equity participation continued

Option Plan

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

At 31 March 2015, there were no (2014: 24) participants in the MGESOP.

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

	Number of options 2015	**Weighted average exercise price 2015 $**	Number of options 2014	Weighted average exercise price 2014[2] $
Outstanding at the beginning of the financial year	**80,879**	**48.31**	8,725,398	52.63
Adjustment of Options due to 0.9438 for one ordinary share consolidation[1]	**–**	**–**	(6,456)	42.79
Forfeited during the financial year	**–**	**–**	(1,200)	50.35
Exercised during the financial year	**(67,664)**	**48.25**	(423,159)	31.72
Lapsed during the financial year	**(13,215)**	**48.58**	(8,213,704)	53.76
Outstanding at the end of the financial year	**–**	**–**	80,879	48.31
Exercisable at the end of the financial year	**–**	**–**	80,879	48.31

For options exercised during the financial year the weighted average share price at the date of exercise was $59.45 (2014: $46.98). There are no outstanding options as at 31 March 2015.

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

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

The weighted average remaining contractual life for the share options outstanding as at 31 March 2015 was nil (2014: 0.43 years). The weighted average remaining contractual life when analysed by exercise price range was:

Exercise price range $	**Number of options 2015**	**Remaining life (years) 2015**	Number of options 2014	Remaining life (years) 2014
30-40	**–**	**–**	22,358	0.25
40-50	**–**	**–**	15,102	0.56
50-60	**–**	**–**	43,419	0.49
	–	**–**	80,879	0.43

The market value of shares issued during the year as a result of the exercise of these options was $4.02 million (2014: $19.8 million).

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Note 33
Employee equity participation continued

Employee Share Plan

The Consolidated Entity continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to $1,000 worth of fully paid ordinary Macquarie shares for no cash payment.

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

The latest offer under the ESP was made during November 2014. A total of 1,005 (2014: 966) staff participated in this offer. On 8 December 2014, the participants were each allocated 16 (2014:18) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $ 59.27 (2014: $53.70); a total of 16,080 (2014: 17,388) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

Historical Share Plans

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

Other plans

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

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m

Note 34

Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Contingent liabilities exist in respect of:				
Letters of credit	**611**	558	**–**	–
Guarantees	**601**	285	**3,585**	3,413
Performance related contingents	**276**	342	**–**	–
Indemnities	**155**	161	**–**	–
Total contingent liabilities[1], [2]	**1,643**	1,346	**3,585**	3,413
Commitments exist in respect of:				
Undrawn credit facilities	**5,956**	4,792	**–**	–
Forward asset purchases	**5,712**	455	**–**	–
Total commitments[3]	**11,668**	5,247	**–**	–
Total contingent liabilities and commitments	**13,311**	6,593	**3,585**	3,413

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. The Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

(2) The Company guarantees the performance obligation of certain subsidiaries in relation to their external obligations.

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

Note 35

Lease commitments

	Consolidated 2015 $m	Consolidated 2014 $m	Company 2015 $m	Company 2014 $m
Non-cancellable operating leases expiring:				
Not later than one year	**147**	170	**–**	–
Later than one year and not later than five years	**570**	482	**–**	–
Later than five years	**292**	382	**–**	–
Total operating lease commitments	**1,009**	1,034	**–**	–

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

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Note 36
Structured entities

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

Securitisations

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

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

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

Asset-backed financing

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

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

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

Investment funds

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

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

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

At 31 March 2015, the Consolidated Entity's interests in unconsolidated investment funds is immaterial.

Interests held

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (eg interest rate swaps and currency swaps) and positions where the Consolidated Entity:

(i) creates rather than absorbs variability of the unconsolidated SE (eg purchase of credit protection under a credit default swap)

(ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs, and

(iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

Note 36

Structured entities continued

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

	Nature of activity	
	Securitisations $m	**Asset-backed financing $m**
		Consolidated 2015
Carrying value of assets		
Trading portfolio assets	**373**	**–**
Derivative assets	**1**	**11**
Investment securities available for sale[(1)]	**1,692**	**176**
Loan assets held at amortised cost	**308**	**451**
Total carrying value of assets	**2,374**	**638**
Maximum exposure to loss		
Debt and equity held	**2,373**	**627**
Derivatives and undrawn commitments	**786**	**55**
Total maximum exposure to loss	**3,159**	**682**

	Nature of activity	
	Securitisations $m	Asset-backed financing $m
		Consolidated 2014
Carrying value of assets		
Trading portfolio assets	1,169	–
Derivative assets	4	21
Investment securities available for sale[(1)]	2,430	146
Loan assets held at amortised cost	254	270
Total carrying value of assets	3,857	437
Maximum exposure to loss		
Debt and equity held	3,853	416
Derivatives and undrawn commitments	882	21
Total maximum exposure to loss	4,735	437

(1) Securitisations includes $1,198 million (2014: $1,749 million) of investments that are managed by the Consolidated Entity under the liquid assets holdings policy described in Note 38.2 – Liquidity risk.

Notes to the financial statements
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Note 36

Structured entities continued

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

Of the above interests, the Consolidated Entity holds $742 million (2014: $846 million) in subordinated interests, with $234 million (2014: $533 million) included in securitisation activities and $508 million (2014: $313 million) million included in asset-backed financing activities. These carrying values also represent the maximum exposure to loss.

The subordinated securitisation interests are primarily trading positions that are typically managed under market risk described in Note 38.3 – Market risk. For these reasons, information on size and capital structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented.

The subordinated asset-backed interests are included within derivative assets, investments available for sale and loans, involve unconsolidated SEs with a total size of $1,668 million (2014: $1,025 million), and the potential losses borne by others whose interests rank lower is $9 million (2014: $8 million).

Size represents either the assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); the principal amount of liabilities if there is nominal equity; or the notional amounts of derivatives if the SE was designed to primarily obtain exposure synthetically through derivative instruments. Size is based on the most current publicly available information to the Consolidated Entity.

Support

MGL has contractually guaranteed the performance obligations of a consolidated SE that has borrowings from third parties. The notional value of the guarantee is $2,023 million (2014: $1,672 million), which is included in amounts of MGL guarantees disclosed in Note 34 – Contingent liabilities and commitments. For the Consolidated Entity, this contingent liability is replaced with the SE's borrowing of $1,957 million (2014: $1,616 million) owing to third parties, included in Note 24 – Debt issued at amortised cost.

Note 37

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

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

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

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from 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. The Consolidated Entity is also exposed to foreign currency exchange risk from foreign currency denominated issued debt which is hedged with cross-currency swaps.

At 31 March 2015, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $125 million negative value (2014: $58 million negative value).

During the year the Consolidated Entity recognised $1.1 million of losses (2014: $0.6 million gains) in the income statement due to hedge ineffectiveness on cash flow hedges.

Fair value hedges: The Consolidated Entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates, and
- foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2015, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $74 million negative value (2014: $211 million positive value).

During the year fair value losses on the hedging instruments of $285 million have been recognised (2014: $82 million losses), offset by $301 million (2014: $86 million gains) of gains on the hedged item.

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

At 31 March 2015, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $237 million negative value (2014: $182 million negative value). During the year the Consolidated Entity recognised $nil (2014: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to $6,208 million (2014: $5,449 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of $911 million (2014: $223 million losses) on translation of the foreign currency borrowing to Australian Dollars at the end of the reporting period is recognised in other comprehensive income.

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

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

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2015
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Note 38
Financial risk management
Risk Management Group

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are credit, market, equity, operational, liquidity, regulatory, compliance, legal, insurance, tax and reputational risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. RMG independently assesses all material risks.

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

Note 38.1

Credit risk

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

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

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Exposures for derivatives depend on potential future asset prices. To mitigate credit risk, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

Macquarie wholesale ratings broadly correspond to Standard & Poor's credit ratings as follows:

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

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

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

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

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

Notes to the financial statements
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continued

Note 38.1

Credit risk continued

Maximum exposure to credit risk

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

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia				
Governments	–	4,208	534	1,166
Financial institutions	4,161	200	606	3,303
Other	–	2	1,221	116
Total Australia	4,161	4,410	2,361	4,585
Asia Pacific				
Governments	–	651	1	91
Financial institutions	3,558	876	354	224
Other	–	461	348	–
Total Asia Pacific	3,558	1,988	703	315
Europe, Middle East and Africa				
Governments	–	–	84	–
Financial institutions	7,882	438	5,132	471
Other	–	57	7,300	468
Total Europe, Middle East and Africa	7,882	495	12,516	939
Americas				
Governments	–	1,557	159	–
Financial institutions	13,104	344	2,064	168
Other	–	682	2,277	445
Total Americas	13,104	2,583	4,500	613
Total gross credit risk	28,705	9,476	20,080	6,452

Other financial assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Credit commitments and contingent liabilities $m	Total $m
				Consolidated 2015
2	61	–	–	5,971
64	909	–	256	9,499
1,674	42,282	291	2,062	47,648
1,740	43,252	291	2,318	63,118
–	9	76	–	828
–	507	–	33	5,552
2,479	754	–	109	4,151
2,479	1,270	76	142	10,531
–	6	20	–	110
–	2,694	355	467	17,439
3,888	8,225	48	6,604	26,590
3,888	10,925	423	7,071	44,139
–	110	–	–	1,826
–	5,330	62	1,267	22,339
3,129	11,875	197	2,513	21,118
3,129	17,315	259	3,780	45,283
11,236	72,762	1,049	13,311	163,071

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 38.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m
Australia				
Governments	–	5,715	324	2,494
Financial institutions	5,445	88	872	6,072
Other	–	56	407	95
Total Australia	5,445	5,859	1,603	8,661
Asia Pacific				
Governments	–	694	6	43
Financial institutions	2,111	466	312	522
Other	–	336	128	10
Total Asia Pacific	2,111	1,496	446	575
Europe, Middle East and Africa				
Governments	–	52	53	53
Financial institutions	6,143	229	4,534	1,225
Other	–	47	2,302	412
Total Europe, Middle East and Africa	6,143	328	6,889	1,690
Americas				
Governments	–	1,008	22	–
Financial institutions	5,758	714	2,135	716
Other	–	528	1,538	404
Total Americas	5,758	2,250	3,695	1,120
Total gross credit risk	19,457	9,933	12,633	12,046

Other financial assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Credit commitments and contingent liabilities $m	Total $m
				Consolidated 2014
1	60	–	1	8,595
37	443	–	300	13,257
1,173	32,920	578	1,976	37,205
1,211	33,423	578	2,277	59,057
–	6	61	–	810
–	319	–	108	3,838
2,543	567	10	139	3,733
2,543	892	71	247	8,381
–	6	21	–	185
–	3,940	515	643	17,229
2,413	4,589	67	712	10,542
2,413	8,535	603	1,355	27,956
–	127	–	–	1,157
–	4,053	10	503	13,889
4,210	11,682	250	2,211	20,823
4,210	15,862	260	2,714	35,869
10,377	58,712	1,512	6,593	131,263

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 38.1
Credit risk continued

Maximum exposure to credit risk continued

	Other financial assets $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
				Company 2015
Australia				
Other	8	10,255	475	10,738
Total Australia	8	10,255	475	10,738
Asia Pacific				
Other	–	38	409	447
Total Asia Pacific	–	38	409	447
Europe, Middle East and Africa				
Financial institutions	–	–	58	58
Other	–	2	495	497
Total Europe, Middle East and Africa	–	2	553	555
Americas				
Other	–	66	2,148	2,214
Total Americas	–	66	2,148	2,214
Total gross credit risk	8	10,361	3,585	13,954
				Company 2014
Australia				
Other	16	8,600	506	9,122
Total Australia	16	8,600	506	9,122
Asia Pacific				
Other	–	54	334	388
Total Asia Pacific	–	54	334	388
Europe, Middle East and Africa				
Other	–	2	796	798
Total Europe, Middle East and Africa	–	2	796	798
Americas				
Other	–	55	1,777	1,832
Total Americas	–	55	1,777	1,832
Total gross credit risk	16	8,711	3,413	12,140

Note 38.1

Credit risk continued

Collateral and credit enhancements held

Receivables from financial institutions

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

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

Loan assets held at amortised cost

Residential mortgage loans

Residential mortgages are secured by fixed charges over a borrower's property. Further, Macquarie obtains lender's mortgage insurance (LMI) to cover the majority of the mortgage portfolio to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. Substantially all the Americas portfolio consists of Canadian mortgages. Included in the mortgage loan balance is $17,207 million (2014: $14,025 million) which have been securitised by consolidated SPEs. Further, $1,854 million (2014: $3,853 million) are held by either a government-backed securitisation vehicle or financial institutions, not consolidated by the Consolidated Entity.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 38.1
Credit risk continued

The tables below provide information on loan to value ratios (LVRs) determined using current loan balances and the valuation at the time the mortgage was financed.

	2015			2014		
	Australia $m	**Americas $m**	**EMEA $m**	Australia $m	Americas $m	EMEA $m
Fully collateralised						
Loan to value ratio						
Less than 25%	**937**	**36**	**–**	212	13	–
25% to 50%	**3,261**	**226**	**–**	1,222	161	244
51% to 75%	**8,762**	**1,539**	**720**	4,429	902	207
76% to 90%	**10,293**	**1,534**	**–**	8,716	2,630	32
91% to 100%	**1,626**	**467**	**–**	2,324	1,813	–
Partly collateralised	**15**	**2**	**–**	6	2	–
Total mortgages	**24,894**	**3,804**	**720**	16,909	5,521	483

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Relationship Banking provides residential and commercial mortgages to clients in Australia, usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property. Of the mortgage balance of $2,064 million (2014: $1,199 million), $166 million (2014: $109 million) has a LVR of 50 percent or less, $983 million (2014: $615 million) has a LVR of between 50 and 75 percent and $894 million (2014: $462 million) has a LVR of between 75 and 100 percent. $21 million (2014: $13 million) is only partly secured by real estate with a LVR greater than 100 percent.

Investment and insurance premium lending

Macquarie lends to clients for investment, and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the investment as collateral. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. Of the investment and insurance premium lending portfolio of $1,671 million (2014: $1,126 million), $1,626 million (2014: $728 million) is fully collateralised.

Lease and retail financing

Macquarie leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying fixed assets are held by Macquarie as collateral. Of the lease and retail finance portfolio of $11,435 million (2014: $10,997 million), the credit exposure after considering the depreciated value of collateral is $5,527 million (2014: $3,110 million).

Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured positions over assets of the counterparty, often in the form of commercial property and land rights. Of the term lending of $19,025 million (2014: $15,856 million), the credit exposure after the estimated value of collateral and credit enhancements is $4,802 million (2014: $3,341 million).

Additional collateral

Macquarie excludes other types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

Other financial assets at fair value through profit or loss

Included in Other financial assets at fair value through profit or loss is financing provided to clients for investing, which had a carrying value at balance date of $268 million (2014: $644 million). This amount is secured by the underlying securities investments or cash deposits of the investors.

Note 38.1

Credit risk continued

Derivative financial instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are usually referred to as Over The Counter (OTC) derivatives. Certain of the Group's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties.

Exchange traded and OTC-cleared derivative contracts have reduced credit risk as our counterparty is a clearing house that is responsible for risk managing their members to ensure the clearing house has adequate resources to fulfill its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. Macquarie has exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2015 of $4,641 million (2014: $2,565 million). Macquarie has also placed margins on House and Client positions with exchanges, the balance at 31 March 2015 being $5,063 million (2014: $2,831 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

For OTC derivative contracts, Macquarie often has master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement (eg derivatives and cash margins) to be terminated and settled on a net basis. Macquarie also often executes a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2015, Macquarie held OTC contracts with a positive replacement value of $15,505 million (2014: $10,153 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of $8,753 million (2014: $6,235 million) and margins held (excluding the impact of over-collateralisation) of $1,738 million (2014: $1,167 million). In addition, Macquarie has placed collateral of $2,386 million (2014: $1,643 million) which has immaterial credit risk as this is offset by the related negative OTC contracts.

Debt investments securities available for sale

Included in this balance are holdings of $225 million (2014: $255 million) secured by specified Australian and Canadian assets under covered bonds.

Other assets

Security settlements of $6,722 million (2014: $6,094 million) are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). Macquarie holds the underlying equity security or cash until settled, which is usually less than 3 days after trade.

Credit commitments and contingent liabilities

Of the Undrawn facilities and lending commitments of $6,598 million (2014: $4,792 million), $2,754 million (2014: $2,129 million) are fully secured by underlying specific assets.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 38.1
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 2015

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	25,535	3,166	4	–	–	28,705
Trading portfolio assets						9,476
Governments	6,416	–	–	–	–	6,416
Financial institutions	1,387	407	64	–	–	1,858
Other	436	579	187	–	–	1,202
Derivative assets						20,080
Governments	769	9	–	–	–	778
Financial institutions	7,916	231	9	–	–	8,156
Other	7,286	3,789	71	–	–	11,146
Debt investment securities available for sale						6,452
Governments	1,257	–	–	–	–	1,257
Financial institutions	4,122	44	–	–	–	4,166
Other	93	814	–	–	122	1,029
Other financial assets						11,236
Governments	–	–	–	–	2	2
Financial institutions	–	–	–	–	64	64
Other	8,879	2,019	–	141	131	11,170
Loan assets held at amortised cost						72,762
Governments	174	12	–	–	–	186
Financial institutions	7,147	2,268	13	–	12	9,440
Other	33,411	26,940	–	–	2,785	63,136
Other financial assets at fair value through profit or loss						1,049
Governments	96	–	–	–	–	96
Financial institutions	357	60	–	–	–	417
Other	22	498	–	–	16	536
Total	105,303	40,836	348	141	3,132	149,760

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

Note 38.1
Credit risk continued

Credit quality – Consolidated 2014

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	17,478	1,963	16	–	–	19,457
Trading portfolio assets						9,933
Governments	7,417	52	–	–	–	7,469
Financial institutions	913	548	36	–	–	1,497
Other	441	389	137	–	–	967
Derivative assets						12,633
Governments	404	1	–	–	–	405
Financial institutions	7,579	274	–	–	–	7,853
Other	2,985	1,390	–	–	–	4,375
Debt investment securities available for sale						12,046
Governments	2,590	–	–	–	–	2,590
Financial institutions	8,453	82	–	–	–	8,535
Other	136	784	–	–	1	921
Other financial assets						10,377
Governments	–	–	–	–	1	1
Financial institutions	–	–	–	–	37	37
Other	6,649	2,895	20	610	165	10,339
Loan assets held at amortised cost						58,712
Governments	187	12	–	–	–	199
Financial institutions	5,093	3,406	256	–	–	8,755
Other	24,851	22,995	227	–	1,685	49,758
Other financial assets at fair value through profit or loss						1,512
Governments	82	–	–	–	–	82
Financial institutions	508	17	–	–	–	525
Other	32	854	–	–	19	905
Total	85,798	35,662	692	610	1,908	124,670

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 2015
continued

Note 38.1
Credit risk continued

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

Credit quality – Company 2015

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Other assets						
Other	6	2	–	–	–	8
Due from subsidiaries						
Other	10,259	–	–	102	–	10,361
Total	10,265	2	–	102	–	10,369

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

Credit quality – Company 2014

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Other assets						
Other	3	–	–	13	–	16
Due from subsidiaries						
Other	8,585	–	–	126	–	8,711
Total	8,588	–	–	139	–	8,727

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

Note 38.1

Credit risk continued

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

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m
						Consolidated 2015
Debt investment securities available for sale						
Other	**–**	**–**	**–**	**122**	**–**	**122**
Other assets						
Government	**1**	**1**	**–**	**–**	**–**	**2**
Financial institutions	**63**	**1**	**–**	**–**	**–**	**64**
Other	**73**	**13**	**4**	**10**	**31**	**131**
Loan assets held at amortised cost						
Financial institutions	**5**	**4**	**3**	**–**	**–**	**12**
Other	**782**	**185**	**72**	**1,152**	**594**	**2,785**
Other financial assets at fair value through profit or loss						
Other	**13**	**1**	**–**	**–**	**2**	**16**
Total	**937**	**205**	**79**	**1,284**	**627**	**3,132**
						Consolidated 2014
Debt investment securities available for sale						
Other	–	–	–	–	1	1
Other assets						
Government	1	–	–	–	–	1
Financial institutions	35	1	1	–	–	37
Other	75	27	20	2	41	165
Loan assets held at amortised cost						
Other	752	166	62	340	365	1,685
Other financial assets at fair value through profit or loss						
Other	3	3	1	4	8	19
Total	866	197	84	346	415	1,908

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in Note 1(xiv) – Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $1,058 million (2014: $966 million) relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

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

Repossessed collateral

In the event of customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. As at 31 March 2015, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of $79 million (2014: $178 million). These assets are in the process of being sold.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 38.2

Liquidity risk

Liquidity management

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the CEO, MBL CEO, the CFO, Chief Risk Officer, Group Treasurer and Business Group Heads.

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

Liquidity policy

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. MGL's risk appetite is to be able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period with no 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, MGL is funded predominantly with a mixture of capital and long-term wholesale funding.

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. MBL's risk appetite is to be able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited reduction in franchise businesses.

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

Scenario analysis

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

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

Liquid asset holdings

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

Group Treasury maintains a portfolio of highly liquid unencumbered assets in the Consolidated Entity to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. MGL's minimum level of cash and liquid assets is calculated with reference to internal scenario projections and minimum regulatory requirements.

Liquidity contingency plan

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

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

Note 38.2

Liquidity risk continued

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

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for the group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

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

	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 2015
Trading portfolio liabilities	–	5,295	–	–	–	5,295
Derivative financial instruments (trading)	–	17,430	–	–	–	17,430
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	4,865	3,514	10,294	2,820	21,493
Contractual amounts receivable	–	(4,795)	(3,163)	(9,871)	(2,595)	(20,424)
Deposits	39,102	4,466	3,287	608	21	47,484
Other financial liabilities(1)	–	11,572	–	–	–	11,572
Payables to financial institutions	9,124	5,182	668	3,584	565	19,123
Other financial liabilities at fair value through profit or loss	–	153	170	361	1,175	1,859
Debt issued at amortised cost(2)	3	10,209	11,624	31,017	22,421	75,274
Loan Capital(3)	–	147	744	2,129	2,270	5,290
Total undiscounted cash flows	48,229	54,524	16,844	38,122	26,677	184,396
Contingent liabilities	–	1,643	–	–	–	1,643
Commitments	620	5,001	5,213	825	9	11,668
Total undiscounted contingent liabilities and commitments(4)	620	6,644	5,213	825	9	13,311

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

(2) Included in this balance is $25,861 million (2014: $19,139 million) payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in the maturity analysis.

(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 27 – Loan capital.

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 38.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Consolidated 2014
Trading portfolio liabilities	–	2,762	–	–	–	2,762
Derivative financial instruments (trading)	–	11,537	–	–	–	11,537
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	2,467	2,222	5,649	620	10,958
Contractual amounts receivable	–	(2,374)	(2,303)	(5,795)	(706)	(11,178)
Deposits	32,631	5,124	4,290	460	14	42,519
Other financial liabilities[1]	–	11,111	–	–	–	11,111
Payables to financial institutions	4,809	10,005	586	3,713	919	20,032
Other financial liabilities at fair value through profit or loss	–	538	342	315	303	1,498
Debt issued at amortised cost[2]	–	8,783	9,659	19,548	17,453	55,443
Loan Capital[3]	–	115	171	2,028	2,189	4,503
Total undiscounted cash flows	37,440	50,068	14,967	25,918	20,792	149,185
Contingent liabilities	–	1,346	–	–	–	1,346
Commitments	–	4,659	199	384	5	5,247
Total undiscounted contingent liabilities and commitments[4]	–	6,005	199	384	5	6,593

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

(2) Included in this balance is $19,139 million payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in the maturity analysis.

(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 27 – Loan capital.

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

Note 38.2

Liquidity risk continued

	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 2015
Deposits	**–**	**–**	**18**	**–**	**–**	**18**
Other financial liabilities[1]	**–**	**3**	**–**	**–**	**–**	**3**
Payables to financial institutions	**–**	**11**	**34**	**2,691**	**–**	**2,736**
Due to subsidiaries[2]	**274**	**49**	**–**	**177**	**44**	**544**
Debt issued at amortised cost	**–**	**79**	**272**	**5,635**	**1,485**	**7,471**
Loan Capital[3]	**–**	**17**	**17**	**686**	**–**	**720**
Total undiscounted cash flows	**274**	**159**	**341**	**9,189**	**1,529**	**11,492**
Contingent liabilities	**–**	**3,585**	**–**	**–**	**–**	**3,585**
Total undiscounted contingent liabilities[4]	**–**	**3,585**	**–**	**–**	**–**	**3,585**
						Company 2014
Deposits	–	33	–	–	–	33
Other financial liabilities[1]	–	2	–	–	–	2
Payables to financial institutions	–	6	17	1,393	–	1,416
Due to subsidiaries[2]	484	2	1	65	–	552
Debt issued at amortised cost	–	128	1,299	3,154	3,014	7,595
Loan Capital[3]	–	17	17	719	–	753
Total undiscounted cash flows	484	188	1,334	5,331	3,014	10,351
Contingent liabilities	–	3,413	–	–	–	3,413
Total undiscounted contingent liabilities[4]	–	3,413	–	–	–	3,413

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Excludes items that are not financial instruments and non-contractual prepayments.
(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities, refer to Note 27 – Loan capital.
(4) Cash flows on contingent liabilities are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

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Note 38.3
Market risk

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

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

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

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

RMG sets three complementary limit structures:

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

Value-at-Risk figures (1-day, 99 percent confidence level)

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

	2015 Average $m	2015 Maximum $m	2015 Minimum $m	2014 Average $m	2014 Maximum $m	2014 Minimum $m
						Consolidated
Equities	**6.51**	**13.43**	**3.35**	5.55	8.21	2.98
Interest rates	**8.86**	**14.49**	**6.08**	10.37	15.56	6.17
Foreign exchange and bullion	**2.64**	**4.44**	**0.58**	3.97	8.05	1.05
Commodities	**9.75**	**13.75**	**6.80**	13.08	20.89	7.36
Aggregate	**13.96**	**23.76**	**8.18**	18.09	28.23	9.38

Value-at-Risk

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

Interest rate risk

The Consolidated Entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate small levels of interest rate risk. Wherever possible, these interest rate risks are transferred into the trading books of CFM and Group Treasury Division which are managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book due to factors outside the interest rate market or due to timing differences in accumulating exposures large enough to hedge. These residual risks have independent limits that are monitored by RMG and regularly reported to senior management.

Note 38.3

Market risk continued

Foreign currency risk

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

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

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

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

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

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars. Other than this there is no material non-trading foreign exchange risk in the profit and loss.

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

	2015		2014	
	Movement in exchange rates %	**Sensitivity of equity after tax $m**	Movement in exchange rates %	Sensitivity of equity after tax $m
				Consolidated
USD	**+10**	**(413.2)**	+10	(320.0)
GBP	**+10**	**(69.5)**	+10	(64.0)
CAD	**+10**	**(28.2)**	+10	(26.6)
EUR	**+10**	**(33.5)**	+10	(31.0)
Total		**(544.4)**		(441.6)
USD	**–10**	**505.0**	–10	391.1
GBP	**–10**	**84.9**	–10	78.3
CAD	**–10**	**34.5**	–10	32.4
EUR	**–10**	**40.9**	–10	37.9
Total		**665.3**		539.7

Notes to the financial statements
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Note 38.3
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:

	2015			2014		
Geographic region	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m
						Consolidated
Listed						
Americas	**+10**	**–**	**31.9**	+10	–	14.5
Australia	**+10**	**0.4**	**27.3**	+10	–	36.1
Asia Pacific	**+10**	**–**	**1.1**	+10	–	1.3
Europe, Middle East and Africa	**+10**	**–**	**0.7**	+10	1.8	0.8
Unlisted	**+10**	**0.7**	**104.4**	+10	0.6	86.0
Listed						
Americas	**–10**	**–**	**(31.9)**	–10	–	(14.5)
Australia	**–10**	**(0.4)**	**(27.3)**	–10	–	(36.1)
Asia Pacific	**–10**	**–**	**(1.1)**	–10	–	(1.3)
Europe, Middle East and Africa	**–10**	**–**	**(0.7)**	–10	(1.8)	(0.8)
Unlisted	**–10**	**(0.7)**	**(104.4)**	–10	(0.6)	(86.0)

Note 39

Fair value 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 (ie as prices) or indirectly (ie derived from prices)

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 Consolidated Entity uses the portfolio exemption in AASB 13 *Fair Value Measurement* to measure the fair value of certain groups of financial assets and financial liabilities. These are measured using the price that would be received to sell a net long position, or transfer a net short position, for a particular risk exposure.

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

– trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (eg 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 (eg listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of
– fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
– for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
– for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
– for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

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 (eg 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.

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Note 39
Fair value of financial assets and liabilities continued

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

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments, and
- in the 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.

Note 39

Fair value of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Company:

	2015 Carrying value $m	2015 Fair value $m	2014 Carrying value $m	2014 Fair value $m
				Consolidated
Assets				
Receivables from financial institutions	**28,705**	**28,705**	19,457	19,457
Other financial assets	**11,236**	**11,236**	10,377	10,377
Loan assets held at amortised cost	**72,762**	**72,834**	58,712	58,875
Total assets	**112,703**	**112,775**	88,546	88,709
Liabilities				
Deposits	**47,386**	**47,359**	42,401	42,413
Other financial liabilities	**10,568**	**10,568**	10,027	10,027
Payables to financial institutions	**18,645**	**18,747**	19,654	19,698
Debt issued at amortised cost	**61,463**	**62,463**	45,565	46,302
Loan capital at amortised cost	**4,384**	**4,712**	3,507	3,744
Total liabilities	**142,446**	**143,849**	121,154	122,184

The fair values for "Deposits" have been predominantly classified as Level 1 except for $9,984 million (2014: $10,849 million) which have been classified as Level 2.

Fair values for "Receivable from Financial Institutions", "Other financial assets", "Other financial liabilities", "Payable to financial institutions", "Debt issued at amortised cost" and "Loan capital" have been predominantly classified as Level 2 except for $10,552 million (2014: $8,509 million) in Receivables from Financial Institutions, $1,926 million (2014: $1,595 million) in Payable to financial institutions, $1,599 million (2014: $3,279 million) in Debt issued at amortised cost and $1,427 million (2014: $934 million) in Loan Capital has been classified as Level 1 and $7,162 million (2014:$5,999 million) in Debt issued at amortised cost is classified as Level 3.

Loan assets at amortised cost are primarily Level 3 except for $10,470 million (2014: $11,715 million) which has been classified as Level 2 and $9,318 million (2014: $5,342 million) which has been classified as Level 1.

	2015 Carrying value $m	2015 Fair value $m	2014 Carrying value $m	2014 Fair value $m
				Company
Assets				
Other financial assets	**8**	**8**	16	16
Due from subsidiaries	**10,361**	**10,361**	8,711	8,711
Total assets	**10,369**	**10,369**	8,727	8,727
Liabilities				
Deposits	**18**	**18**	33	33
Other Financial Liabilities	**3**	**3**	2	2
Payables to financial institutions	**2,566**	**2,584**	1,307	1,307
Due to subsidiaries	**810**	**810**	866	866
Debt issued at amortised cost	**6,179**	**6,737**	6,265	6,581
Loan capital at amortised cost	**603**	**624**	601	628
Total liabilities	**10,179**	**10,776**	9,074	9,417

As at 31 March 2015, the above fair values are predominantly classified as Level 2 in the fair value hierarchy except for ‘Loan capital ‘classified as Level 1”.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 39
Fair value of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				Consolidated 2015
Assets				
Trading portfolio assets	**19,580**	**10,129**	**697**	**30,406**
Derivative assets	**948**	**18,799**	**333**	**20,080**
Investment securities available for sale	**4,306**	**2,389**	**2,201**	**8,896**
Other financial assets at fair value through profit or loss	**118**	**1,817**	**190**	**2,125**
Other financial assets[(1)]	**234**	**825**	**–**	**1,059**
Total assets	**25,186**	**33,959**	**3,421**	**62,566**
Liabilities				
Trading portfolio liabilities	**2,697**	**2,598**	**–**	**5,295**
Derivative liabilities	**1,159**	**16,869**	**239**	**18,267**
Other financial liabilities at fair value through profit or loss	**–**	**1,604**	**22**	**1,626**
Other financial liabilities[(1)]	**232**	**772**	**–**	**1,004**
Total liabilities	**4,088**	**21,843**	**261**	**26,192**
				Consolidated 2014
Assets				
Trading portfolio assets	13,982	7,770	710	22,462
Derivative assets	591	11,944	98	12,633
Investment securities available for sale	8,897	3,930	1,224	14,051
Other financial assets at fair value through profit or loss	244	2,457	153	2,854
Other financial assets[(1)]	353	760	–	1,113
Total assets	24,067	26,861	2,185	53,113
Liabilities				
Trading portfolio liabilities	1,125	1,637	–	2,762
Derivative liabilities	738	11,148	87	11,973
Other financial liabilities at fair value through profit or loss	–	1,432	32	1,464
Other financial liabilities[(1)]	351	733	–	1,084
Total liabilities	2,214	14,950	119	17,283

(1) Relates to life insurance contracts and other unitholder investment assets and liabilities.

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Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 39
Fair value 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 years ended 31 March 2015 and 31 March 2014:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at 1 April 2013	322	744
Purchases	354	583
Sales	(196)	(237)
Issues	–	49
Settlements	–	(3)
Net transfers into Level 3	312	16
Net transfers out of Level 3	(90)	(65)
Fair value gains/(losses) recognised in the income statement(1)	8	76
Fair value gains recognised in other comprehensive income(1)	–	61
Balance at 31 March 2014	710	1,224
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	9	33
Balance at 1 April 2014	**710**	**1,224**
Purchases	**609**	**605**
Sales	**(545)**	**(450)**
Issues	**–**	**–**
Settlements	**–**	**(90)**
Net transfers into Level 3	**65**	**672**
Net transfers out of Level 3	**(152)**	**(78)**
Fair value gains/(losses) recognised in the income statement(1)	**10**	**274**
Fair value gains recognised in other comprehensive income(1)	**–**	**44**
Balance at 31 March 2015	**697**	**2,201**
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	**10**	**157**

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

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are $333 million (2014: $98 million) and derivative liabilities are $239 million (2014: $87 million).

Note 39

Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

Other financial assets at fair value through profit or loss $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)(2) $m	Total $m
			Consolidated 2014
69	(70)	23	1,088
62	–	(33)	966
(40)	40	(2)	(435)
–	–	(5)	44
–	2	(19)	(20)
57	–	11	396
–	–	7	(148)
5	(4)	29	114
–	–	–	61
153	(32)	11	2,066
1	(4)	38	77
			Consolidated 2015
153	**(32)**	**11**	**2,066**
6	**–**	**104**	**1,324**
(9)	**–**	**(21)**	**(1,025)**
–	**–**	**(10)**	**(10)**
9	**11**	**2**	**(68)**
–	**–**	**(21)**	**716**
–	**–**	**29**	**(201)**
31	**(1)**	**–**	**314**
–	**–**	**–**	**44**
190	**(22)**	**94**	**3,160**
32	**(1)**	**(14)**	**184**

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 39
Fair value 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 2015 $m	Consolidated 2014 $m
Balance at the beginning of the financial year	**12**	32
Deferral on new transactions	**46**	4
Amounts recognised in the income statement during the year	**(2)**	(24)
Balance at the end of the financial year	**56**	12

Sensitivity analysis of valuations using unobservable inputs

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

	Favourable changes		Unfavourable changes	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
Product type				**Consolidated 2015**
Equity and equity linked products	**13**	**114**	**(13)**	**(110)**
Other products	**81**	**23**	**(65)**	**(16)**
Total	**94**	**137**	**(78)**	**(126)**
Product type				Consolidated 2014
Equity and equity linked products	3	75	(3)	(54)
Other products	17	7	(11)	(7)
Total	20	82	(14)	(61)

Note 39

Fair value of financial assets and liabilities continued

Significant unobservable inputs

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

					Range of inputs	
	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Minimum value	Maximum value
					As at 31 Mar 2015	
Equity and equity linked products	**1,794**	**22**	Discounted cash flows	Discount rate	**7.0%**	**15.0%**
			Pricing model	Volatility	**17.0%**	**192.0%**
				Earnings multiple	**0.4x**	**16.0x**
				Correlation	**–**	**–**
			Market comparability	Price in %	**(25.0)%**	**25.0%**
Other products	**1,627**	**239**	Discounted cash flows	Discount rate	**6.0%**	**22.0%**
			Pricing model	Volatility	**11.3%**	**150.0%**
				Correlation	**–**	**–**
			Market comparability	Price in %	**–**	**103.0%**
Total	**3,421**	**261**				
					As at 31 Mar 2014	
Equity and equity linked products	1,022	35	Discounted cash flows	Discount rate	6.8%	25.0%
			Pricing model	Volatility	9.2%	95.0%
				Earnings multiple	0.4x	8.45x
				Correlation	0.07	0.07
			Market comparability	Price in %	(5.9)%	25.0%
Other products	1,163	84	Pricing model	Volatility	7.0%	93.5%
				Correlation	–	1.00
			Market comparability	Price in %	7.0%	214.0%
Total	2,185	119				

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 39
Fair value of financial assets and liabilities continued

Correlation

Correlation is a measure of the relationship between the movements of two variables (ie how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Inputs for unlisted equity securities (discount rate, earnings multiple)

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiple, discount rate and forecast earnings of the investee companies.

Note 40

Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the balance sheet when they meet the criteria described in Note 1(xxiv) – Offsetting financial instruments. The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not qualify for offsetting in the balance sheet. The tables exclude amounts not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the entity, refer to Note 38.1 – Credit risk for information on credit risk management.

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Consolidated 2015
Receivables from financial institutions[1]	17,482	–	17,482	(302)	(16,773)	407
Derivative assets	21,375	(4,746)	16,629	(12,713)	(1,738)	2,178
Other assets	4,136	(2,766)	1,370	(58)	–	1,312
Loan assets held at amortised cost	155	(155)	–	–	–	–
Other financial assets at fair value through profit or loss	1,564	(1,400)	164	–	–	164
Total assets	44,712	(9,067)	35,645	(13,073)	(18,511)	4,061
Derivative liabilities	(21,592)	4,753	(16,839)	12,713	1,947	(2,179)
Deposits	(336)	308	(28)	–	–	(28)
Other liabilities	(4,558)	2,819	(1,739)	58	–	(1,681)
Payables to financial institutions[2]	(10,748)	–	(10,748)	302	10,210	(236)
Other financial liabilities at fair value through profit or loss	(1,139)	1,139	–	–	–	–
Debt issued at amortised cost	(48)	48	–	–	–	–
Total liabilities	(38,421)	9,067	(29,354)	13,073	12,157	(4,124)

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

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 40
Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross Amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Consolidated 2014
Receivables from financial institutions[1]	10,065	(1)	10,064	(712)	(9,132)	220
Derivative assets	13,563	(1,904)	11,659	(8,388)	(1,167)	2,104
Other assets	3,554	(2,075)	1,479	(55)	(1)	1,423
Loan assets held at amortised cost	139	(139)	–	–	–	–
Other financial assets at fair value through profit or loss	1,377	(1,264)	113	–	–	113
Total assets	28,698	(5,383)	23,315	(9,155)	(10,300)	3,860
Derivative liabilities	(13,288)	1,902	(11,386)	8,388	1,300	(1,698)
Deposits	(205)	169	(36)	–	1	(35)
Other liabilities	(3,588)	2,129	(1,459)	55	–	(1,404)
Payables to financial institutions[2]	(8,618)	1	(8,617)	712	7,859	(46)
Other financial liabilities at fair value through profit or loss	(1,150)	1,150	–	–	–	–
Debt issued at amortised cost	(32)	32	–	–	–	–
Total liabilities	(26,881)	5,383	(21,498)	9,155	9,160	(3,183)

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

Note 40

Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Company 2015
Due from subsidiaries	**11,002**	**(785)**	**10,217**	**–**	**–**	**10,217**
Total assets	**11,002**	**(785)**	**10,217**	**–**	**–**	**10,217**
Due to subsidiaries	**(1,063)**	**785**	**(278)**	**–**	**–**	**(278)**
Total liabilities	**(1,063)**	**785**	**(278)**	**–**	**–**	**(278)**
						Company 2014
Due from subsidiaries	11,635	(3,013)	8,622	–	–	8,622
Total assets	11,635	(3,013)	8,622	–	–	8,622
Due to subsidiaries	(3,299)	3,013	(286)	–	–	(286)
Total liabilities	(3,299)	3,013	(286)	–	–	(286)

Offsetting on balance sheet

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

Amounts subject to enforceable netting arrangements

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2015
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Note 41
Transfers of financial assets

Transferred financial assets that are derecognised

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

Transferred financial assets that are not derecognised

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

Repurchase and securities lending agreements

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

Asset swaps

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

Written put options

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

Note 41

Transfers of financial assets continued

There were no material transfers of financial assets for the Company where the assets continue to be recognised as at 31 March 2015 and at 31 March 2014. The following table presents information for transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2015 and 31 March 2014:

	Repurchase and securities lending agreements $m	Transfers with total return/asset swaps $m	Transfer with written put option $m
			Consolidated 2015
Carrying amount of transferred assets[1]	**7,218**	**3,212**	**342**
Carrying amount of associated liabilities	**(7,217)**	**(3,236)**	**(361)**
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement[3]	**–**	**–**	**361**
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	**948**	**1,992**	**345**
Fair value of associated liabilities	**(969)**	**(2,064)**	**(362)**
Net fair value	**(21)**	**(72)**	**(17)**
			Consolidated 2014
Carrying amount of transferred assets[1],[2]	8,771	6,037	668
Carrying amount of associated liabilities[2]	(8,541)	(5,580)	(684)
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement[3]	–	–	683
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	727	4,057	674
Fair value of associated liabilities	(724)	(4,118)	(689)
Net fair value	3	(61)	(15)

(1) The transferred financial assets are presented in Note 8 – Trading portfolio assets $5,909 million (2014: $7,549 million), Note 9 – Investment securities available for sale $1,352 million (2014: $1,743 million), Note 11 – Loan assets held at amortised cost $3,312 million (2014: $6,184 million) and Note 13 – Other financial assets at fair value through profit and loss $199 million (2014: $nil) in the statement of financial position.

(2) As a result of an asset swap, included in the carrying amount of associated liabilities is $nil (2014: $919 million) that will be settled partly by the transferred assets with a carrying amount of $nil (2014: $919 million). The Consolidated Entity had provided a guarantee to the extent of $493 million, and has given $493 million cash collateral to the counterparty that has been set off against the associated liability in 2014. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

(3) This disclosure is required only in respect of transfers that fail derecognition under the continuing involvement model.

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 42

Audit and other services provided by PricewaterhouseCoopers

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

	Consolidated 2015 $'000	Consolidated 2014 $'000	Company 2015 $'000	Company 2014 $'000
PwC – Australia				
Audit and review of financial reports of the Group or controlled entity	**9,917**	8,664	**–**	–
Other audit-related and assurance services	**3,772**	3,139	**–**	–
Total audit and other assurance services	**13,689**	11,803	**–**	–
Advisory services	**151**	833	**–**	–
Taxation	**680**	198	**–**	–
Total non-audit services	**831**	1,031	**–**	–
Total remuneration paid to PwC Australia	**14,520**	12,834	**–**	–
Network firms of PwC Australia				
Audit and review of financial reports of the Group or controlled entity	**10,522**	9,575	**–**	–
Other audit-related and assurance services	**457**	475	**–**	–
Total audit and other assurance services	**10,979**	10,050	**–**	–
Advisory services	**32**	6	**–**	–
Taxation	**1,608**	1,479	**–**	–
Total non-audit services	**1,640**	1,485	**–**	–
Total remuneration paid to network firms of PwC Australia	**12,619**	11,535	**–**	–
Total remuneration paid to PwC (Note 2)	**27,139**	24,369	**–**	–

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 other audit-related and assurance 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.

Note 43

Acquisitions and disposals of subsidiaries and businesses

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

There were no significant entities or businesses acquired or consolidated due to acquisition of control during the period.

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

Credit Cards Portfolio, Macquarie Infrastructure Limited, Macquarie Greater China Limited, Macquarie Greater China Infrastructure Management Limited, Macquarie Greater China Infrastructure Management Advisory Limited and Japan Infrastructure Group Co. Ltd.

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

	2015 $m	2014 $m
Fair value of net assets acquired		
Cash and other assets	**345**	49
Property, plant and equipment	**–**	1
Goodwill and other intangible assets	**18**	37
Payables, provisions, borrowings and other liabilities	**(6)**	(9)
Total fair value of net assets acquired	**357**	78
Consideration		
Cash consideration	**357**	78
Total consideration	**357**	78
Net cash flow		
Cash consideration	**(357)**	(78)
Less:		
Cash and cash equivalents acquired	**4**	42
Net cash outflow	**(353)**	(36)

The 31 March 2014 comparatives principally relate to the following entities or businesses acquired or consolidated due to acquisition of control:

Sequoia PV 1 LLC, Sequoia PV 2 LLC, Sequoia 3 LLC, Macquarie Renaissance Corporate Finance Holdings Limited, Corona Energy Retail 5 Limited and Macquarie Investment Management Korea Co. Ltd.

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

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

Notes to the financial statements
for the financial year ended 31 March 2015
continued

Note 43
Acquisitions and disposals of subsidiaries and businesses continued

Significant entities and businesses disposed of or deconsolidated due to loss of control:

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

Other entities or businesses disposed of or deconsolidated during the financial year are as follows:

Macquarie Rail Inc., Macquarie Rail Canada Limited, CMC Industries Inc., Texas Rail Terminal LLC, TRT LeaseCo LLC, Macquarie Equipment Finance Inc., Macquarie Equipment Funding LLC, UPL (No.15) Pty Limited, Hyperion Investments Australia Pty Limited, Helios Investments Australia Pty Limited, Macquarie Real Estate Korea Ltd, Wala Holding 1 Limited, Delaware Investment Advisers, Delaware Capital Management, Delaware Investments Fund Advisers, West Texas Solar 1 LLC, Hermes Infrastructure Investco BVBA, Hermes Infrastructure NV, Baltic Sea Offshore Holdco Limited, Baltic Sea Offshore Investment Limited, Macquarie Infrastructure and Real Assets Management (Asia) Pte Limited, Delaware Large Cap Core Fund Class I, Macquarie PA TAP Management I Inc., Macquarie NM Management II Inc., Macquarie NM Management I Inc, Macquarie HiTIP Management I Inc., Macquarie Generation Management II Inc. and Macquarie Generation Management I Inc.

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

	2015 $m	2014 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash and other assets	**33**	681
Other financial assets	**1,345**	613
Property, plant and equipment	**618**	106
Goodwill and other intangible assets	**76**	83
Payables, provisions, borrowings and other liabilities	**(1,068)**	(1,031)
Non-controlling interest	**2**	(173)
Total carrying value of assets and liabilities disposed of or deconsolidated	**1,006**	279
Consideration		
Cash consideration	**1,327**	269
Consideration received in equity	**6**	–
Deferred consideration	**2**	–
Total consideration	**1,335**	269
Net cash flow		
Cash consideration	**1,327**	269
Less:		
Investment retained	**–**	36
Cash and cash equivalents disposed of or deconsolidated	**(9)**	(303)
Net cash inflow	**1,318**	2

Entities or businesses disposed of or de-consolidated due to loss of control in the year ended 31 March 2014 comparatives are as follows:

Aviation Technical Services Inc., Bavarian Geothermal Energy Group Limited, Poseidon Infrastructure InvestCo LP BVBA, Macquarie Visor, Rossignol Ski Company, Macquarie European Alpha Fund; Tulare PV I LLC, Tulare PV II LLC, Macquarie Private Wealth Inc., Macquarie Precision Marketing (Japan) Limited, Macquarie Precision Marketing (Australia) Limited, Sequoia PV 1 LLC, Sequoia PV 2 LLC, Sequoia PV 3 LLC, Macquarie Hyperion Limited and Taikansan Kaihatsu Limited.

Note 44

Events after the reporting date

On 15 April 2015, the Company, MBL, Macquarie B.H. Pty Ltd (MBHPL) and Macquarie Financial Holdings Limited (MFHL) signed a Restructure Deed. Through the Restructure Deed, MBL transferred all of the economic risks and rewards from, and control of, the Macquarie Investment Management business (MIM) at fair value to MFHL and its subsidiaries (MFHL Group). The fair value of MIM is $3,709 million. MBL, MBHPL and MFHL are controlled by the Company, and therefore there is no impact on the Consolidated Entity.

MIM, which operates in the MAM segment, offers investment management expertise across a number of asset classes including fixed interest, credit and currencies, equities, infrastructure securities and multi-asset allocation solutions. MIM delivers a full-service offering to both retail and institutional clients in Australia and the US, with selective offerings in other regions.

As a result of entering into the Restructure Deed, on settlement of the Restructure Deed the Company is expecting to receive dividends of approximately $3,100 million from MBHPL, the holding company of MBL. This dividend will be matched by an ordinary share capital contribution of approximately $3,100 million to MFHL. MFHL will apply this contribution of ordinary share capital towards the acquisition of MIM.

Macquarie Group Limited
Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 116 to 225 are in accordance with the *Corporations Act 2001* (Cth) including:
   (i) complying with the accounting standards, and
   (ii) giving a true and fair view of the Company and Consolidated Entity's financial position as at 31 March 2015 and performance for the financial year ended on that date, and

b) there are reasonable grounds to believe that Macquarie Group Limited will be able to pay its debts as and when they become due and payable, and

c) the financial statements also comply with International Financial Reporting Standards (see Note 1(i) – Basis of preparation set out on pages 123 and 124).

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* (Cth).

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

H Kevin McCann, AM
Independent Director and
Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
8 May 2015

Independent auditor's report
to the members of Macquarie Group Limited

pwc

Report on the financial report

We have audited the accompanying financial report of Macquarie Group Limited (the Company), which comprises the statements of financial position as at 31 March 2015, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Group Limited and the Consolidated Entity. The Consolidated Entity comprises the Company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth) and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 – Summary of significant accounting policies, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

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

Auditor's opinion

In our opinion:

a) the financial report of Macquarie Group Limited is in accordance with the *Corporations Act 2001* (Cth), including:
   (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 March 2015 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*.

b) the financial report and notes 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 77 to 114 of the directors' report for the year ended 31 March 2015. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Group Limited for the year ended 31 March 2015, complies with section 300A of the *Corporations Act 2001* (Cth).

PricewaterhouseCoopers

PricewaterhouseCoopers

K. G. Smith

K.G. Smith
Partner

Sydney
8 May 2015

Liability is limited by scheme approved under Professional Standards Legislation

Macquarie Group Limited
Ten year history

The financial information for the full years ended 31 March 2006-2015 is based on the reported results using the Australian Accounting Standards that also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Years ended 31 March	2006	2007	2008	2009	2010	2011	2012	2013	2014	**2015**
Income statement ($ million)										
Total income	4,832	7,181	8,248	5,526	6,638	7,665	6,963	6,657	8,132	**9,293**
Total expenses	(3,545)	(5,253)	(6,043)	(4,537)	(5,344)	(6,394)	(5,914)	(5,252)	(6,026)	**(6,771)**
Operating profit before income tax	1,287	1,928	2,205	989	1,294	1,271	1,049	1,405	2,106	**2,522**
Income tax expense	(290)	(377)	(317)	(15)	(201)	(282)	(287)	(533)	(827)	**(899)**
Profit for the year	997	1,551	1,888	974	1,093	989	762	872	1,279	**1,623**
Macquarie Income Securities distributions	(29)	(31)	(34)	(33)	(21)	(26)	(26)	(21)	(18)	**(18)**
Macquarie Income Preferred Securities distributions	(51)	(54)	(50)	(45)	(8)	(4)	(4)	(4)	(4)	**(5)**
Other non-controlling interests	(1)	(3)	(1)	(25)	(14)	(3)	(2)	4	8	**4**
Profit attributable to ordinary equity holders	916	1,463	1,803	871	1,050	956	730	851	1,265	**1,604**
Statement of financial position ($ million)										
Total assets	106,211	136,389	167,250	149,144	145,940	157,568	153,626	144,748	153,904	**187,976**
Total liabilities	100,874	128,870	157,189	139,584	134,171	145,636	141,894	132,793	141,990	**173,580**
Net assets	5,337	7,519	10,061	9,560	11,769	11,932	11,732	11,955	11,914	**14,396**
Total loan assets	35,126	45,939	53,213	47,080	45,660	47,222	46,380	50,793	58,712	**72,762**
Impaired loan assets (net of provisions)	85	46	121	916	551	340	357	368	365	**594**
Share information										
Dividends per share (cents per share)										
Interim	90	125	145	145	86	86	65	75	100	**130**
Final	125	190	200	40	100	100	75	125	160	**200**
Special[1]	–	–	–	–	–	–	–	–	116	**–**
Total	215	315	345	185	186	186	140	200	376	**330**
Basic earnings per share (cents per share)	400.3	591.6	670.6	309.6	320.2	282.5	210.1	251.2	383.6	**502.3**
Share price at 31 March ($)	64.68	82.75	52.82	27.05	47.25	36.60	29.08	37.15	57.93	**76.67**
Ordinary share capital (million shares)	232.4	253.9	274.6	283.4	344.2	346.8	348.6	339.5	321.1	**333.5**
Market capitalisation at 31 March (fully paid ordinary shares) ($ million)	15,032	21,010	14,504	7,666	16,263	12,693	10,137	12,613	18,601	**25,569**
Net tangible assets per ordinary share ($)	16.99	24.35	30.35	27.89	28.40	28.91	28.12	29.94	31.71	**38.19**
Ratios (%)										
Return on average ordinary shareholders' funds	26.0	28.1	23.7	9.9	10.1	8.8	6.8	7.8	11.1	**14.0**
Ordinary dividend payout ratio	54.4	54.3	52.2	60.2	60.4	67.3	66.4	79.0	66.8	**67.6**
Expense/income ratio	73.4	73.2	73.3	82.1	80.5	83.4	84.9	78.9	74.1	**72.9**
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.2	0.1	0.3	1.9	0.8	0.4	0.5	0.4	0.4	**0.7**
Assets under management ($ billion)	140.3	197.2	232.0	243.1	325.7	309.8	326.9	347.4	426.9	**486.3**
Staff numbers	8,183	10,023	13,107	12,716	14,657	15,556	14,202	13,663	13,913	**14,085**

[1] The special dividend for the year ended 31 March 2014 represented the special dividend component of the SYD distribution in January 2014. The total distribution including return of capital was 373 cents per share.

Additional Investor Information

2015 Shareholder calendar

Date	Event
8 May	Full-year result announcement
20 May	Record date for final ordinary dividend
8 June	Payment date for MCN distribution
2 July	Payment date for final ordinary dividend
23 July	AGM
30 September	Financial half-year end
30 October(1)	Half-year result announcement
11 November(1)	Record date for interim ordinary dividend
7 December	Payment date for MCN distribution
16 December(1)	Payment date for interim ordinary dividend

(1) These dates are subject to change.

2015 Annual General Meeting

Macquarie Group's 2015 AGM will be held at 10:30 am on Thursday, 23 July 2015 at the Sheraton on the Park (Grand Ballroom), 161 Elizabeth Street, Sydney, NSW. Details of the business of the meeting will be forwarded to shareholders separately.

Stock Exchange listing

Macquarie Group Limited is listed on the ASX and its ordinary shares trade under the code MQG.

Macquarie Group Capital Notes (MCN) are listed on the ASX and trade under the code MQGPA.

Macquarie Income Securities (MIS) are listed on the ASX and trade under the code MBLHB.

Macquarie Bank Capital Notes (BCN) are listed on the ASX and trade under the code MBLPA.

Macquarie Preferred Membership Interests (Macquarie PMIs) are listed on the Singapore Stock Exchange and trade under the stock code 40RB.

Macquarie Exchangeable Capital Securities (Macquarie ECS) are listed on the Singapore Stock Exchange and trade under the stock code 2AQB.

Macquarie Group also has debt securities quoted on the London Stock Exchange.

Dividend details

Macquarie Group generally pays a dividend on its fully paid ordinary shares twice a year following the interim and final results announcements. The proposed dates for the 2015 dividends are as follows:

Dividend announcement date	Record date	Proposed payment date
8 May 2015	20 May 2015	2 July 2015
30 Oct 2015(1)	11 Nov 2015(1)	16 Dec 2015(1)

Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie shares rather than receiving dividends in cash.

American Depository Receipt (ADR) program

Macquarie ADRs are negotiable certificates issued by BNY Mellon, with one ADR representing one Macquarie share. They are traded under the symbol MQBKY and are classified as Level 1. They are not listed on any exchange and are only traded over-the-counter via brokers. BNY Mellon:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
USA

Toll-free telephone number for domestic callers:
1-888-BNY-ADRs
Telephone numbers for international callers: +1 201-680-6825
Further information can be found at bnymellon.com/shareowner.

Additional Investor Information
continued

Voting rights

At meetings of members or classes of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

(i) one vote for each fully paid share held, and
(ii) that proportion of a vote for any partly paid ordinary share calculated in accordance with clause 8.18 of the Macquarie Constitution.

A copy of the Constitution is available at macquarie.com/leadership-corporate-governance

Macquarie Group Capital Notes (MCN)

Macquarie MCN may convert into a variable number of ordinary shares on 7 June 2021 or at other times, subject to various conditions. Holders of MCN have no voting rights in respect of Macquarie Group Limited prior to conversion.

Macquarie Preferred Membership Interests (PMIs)

PMIs may be exchanged for preference shares in Macquarie Group Limited under certain circumstances. Prior to exchange, PMI holders have no voting rights in respect of MGL. After an exchange the preference share holder has a right to vote at any general meeting of MGL only in one or more of the following circumstances:

(a) on any proposal:
 (i) to reduce the share capital of MGL
 (ii) that affects the rights attached to the Preference Shares
 (iii) to wind up MGL
 (iv) for the disposal of the whole of the property, business and undertaking of MGL
(b) on any resolution to approve the terms of a share buyback agreement
(c) during a period in which a dividend or part of a dividend is in arrears, or
(d) during the winding up of MGL.

in which case the holders of preference shares have the same rights as to manner of attendance and to voting as holders of ordinary shares with one vote per preference share.

Macquarie Exchangeable Capital Securities (Macquarie ECS)

Macquarie ECS may convert into a variable number of ordinary shares on 20 June 2017 or at other times, subject to various conditions. Holders of Macquarie ECS have no voting rights in respect of Macquarie Group Limited prior to conversion.

Macquarie Income Securities (MIS)

Holders of MIS, as holders of a stapled security that includes a preference share issued by Macquarie Bank, have limited voting rights in respect of Macquarie Bank Limited and no voting rights in respect of Macquarie Group Limited.

Macquarie Bank Capital Notes (BCN)

BCN are unsecured, subordinated notes issued by Macquarie Bank Limited. They are non-cumulative and mandatorily convertible. BCN holders have no voting rights in respect of Macquarie Bank Limited or Macquarie Group Limited.

Macquarie Income Preferred Securities (MIPS)

Unpaid preference shares were issued by Macquarie Bank as part of the MIPS issue. Holders have no voting rights in Macquarie Bank Limited prior to the preference shares becoming paid-up and no rights in respect of Macquarie Group Limited.

Enquiries

Investors who wish to enquire about any administrative matter relating to their Macquarie Group Limited shareholding or MCN security holding are invited to contact the Share Registry office at:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 8060 Australia

Telephone (within Australia): 1300 554 096
Telephone (international) +61 3 9415 4137
Facsimile: +61 3 9473 2500

Website: www.investorcentre.com/contact

All other enquiries relating to a Macquarie Group Limited share investment can be directed to:

Investor Relations

Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333
Facsimile: +61 2 8232 7780

Email: macquarie.shareholders@macquarie.com
Website: macquarie.com/investors

Macquarie Group's Company Secretary, Dennis Leong, may be contacted on the above numbers.

Website

To view the Interim and Annual Reports, presentations, dividend information and other investor information, visit macquarie.com/investors

Fully paid ordinary shares

Twenty largest ordinary shareholders at 22 April 2015:	Ordinary Shares	Percentage of Ordinary Shares
HSBC Custody Nominees (Australia) Limited	71,756,736	21.52
JP Morgan Nominees Australia Limited	55,684,175	16.70
National Nominees Limited	44,483,645	13.34
Citicorp Nominees Pty Limited	21,318,522	6.39
Bond Street Custodians Limited – MEREP Trustee – RSU Allocated	19,933,795	5.98
BNP Paribas Noms Pty Ltd – DRP	8,312,687	2.49
Citicorp Nominees Pty Limited – Colonial First State Inv A/C	6,125,481	1.84
Bond Street Custodians Limited – MEREP Trustee – Unallocated	3,504,844	1.05
AMP Life Limited	2,462,876	0.74
Argo Investments Limited	2,355,151	0.71
HSBC Custody Nominees (Australia) Limited – NT-Comnwlth Super Corp A/C	1,950,233	0.58
BNP Paribas Nominees Pty Ltd – Agency Lending DRP A/C	1,939,263	0.58
Bond Street Custodians Limited – Solium Capital Aus Pty Ltd	1,338,113	0.40
QIC Limited	1,203,722	0.36
RBC Investor Services Australia Nominees Pty Limited – BKCUST A/C	989,950	0.30
Nicholas Moore	816,244	0.24
UBS Nominees Pty Ltd	725,992	0.22
National Nominees Limited – DB A/C	661,676	0.20
EG Holdings Pty Ltd	519,090	0.16
Milton Corporation Limited	508,849	0.15
Total	246,591,044	73.95

Substantial shareholders

At 22 April 2015 the following shareholders were registered by the Company as a substantial shareholder, having declared a relevant interest in accordance with the Act, in the voting shares below:

Holder	Ordinary Shares	Date of notice
Macquarie Group Limited	28,549,458	25 August 2014

Spread of ordinary shareholdings

Details of the spread of ordinary shareholdings at 22 April 2015 are as follows:

Range	Shareholders	Shares
1 – 1,000	79,599	24,140,023
1,001 – 5,000	15,799	29,597,299
5,001 – 10,000	1,005	6,865,651
10,001 – 100,000	573	14,276,379
100,001 shares and over	75	258,578,425
Total	97,051	333,457,777

2,606 shareholders (representing 6,667 fully paid shares) held less than a marketable parcel.

Additional Investor Information
continued

Unlisted securities

- 141,597 exchangeable shares on issue at 22 April 2015 are held by former employees of Orion Financial Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of an ordinary share in Macquarie Group Limited. They expire in November 2017 and carry no Macquarie Group Limited voting rights
- 92,563 exchangeable shares on issue at 22 April 2015 are held by former employees of Tristone Capital Global Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for 0.9438 of an ordinary share in Macquarie Group Limited. They expire in August 2019 and carry no Macquarie Group Limited voting rights. There are a further 11,295 exchangeable shares on issue, resulting from the exercise of retention options previously held under retention agreements with key former Tristone employees
- as at 22 April 2015, 3,624,400 DSUs and 1,824,542 PSUs are held by participants in the MEREP.

Macquarie Group Capital Notes

Twenty largest MCN holders at 22 April 2015:	MCN	Percentage of MCN
Questor Financial Services Limited – TPS RF A/C	293,803	4.90
National Nominees Limited	196,530	3.28
HSBC Custody Nominees (Australia) Limited	126,685	2.11
Navigator Australia Ltd – MLC Investment Sett A/C	123,605	2.06
Nulis Nominees (Australia) Limited – Navigator Mast Plan Sett A/C	87,242	1.45
JP Morgan Nominees Australia Limited	84,780	1.41
UBS Wealth Management Australia Nominees Pty Ltd	69,693	1.16
Australian Executor Trustees Limited – No 1 Account	56,525	0.94
Questor Financial Services Limited – TPS PIP A/C	47,988	0.80
Longhurst Management Services Pty Ltd	38,152	0.64
HSBC Custody Nominees (Australia) Limited – A/C 2	35,560	0.59
UBS Nominees Pty Ltd	33,816	0.56
Netwealth Investments Limited – Wrap Services A/C	31,904	0.53
BT Portfolio Services Limited – Namrog Investments P/L A/C	30,000	0.50
Sir Moses Montefiore Jewish Home – Income A/C	28,000	0.47
Aust Executor Trustees Ltd – DDH Preferred Income Fund	26,499	0.44
BNP Paribas Noms Pty Ltd – DRP	20,000	0.33
Netwealth Investments Limited – Super Services A/C	18,626	0.31
Brownbuilt Pty Ltd	16,477	0.27
Aust Executor Trustees Ltd – Charitable Foundation	15,727	0.26
Total	1,381,612	23.03

Spread of Macquarie Group Capital Notes

Details of the spread of MCN holdings at 22 April 2015 were as follows:

Range	Noteholders	Notes
1 – 1,000	8,151	2,705,852
1,001 – 5,000	680	1,432,738
5,001 – 10,000	40	313,636
10,001 – 100,000	28	807,151
100,001 securities and over	4	740,623
Total	8,903	6,000,000

3 noteholders (representing 9 MCN) held less than a marketable parcel.

Macquarie Preferred Membership Interests

As at 22 April 2015, the 400,000 convertible notes issued by Macquarie Group Limited as part of the Macquarie PMIs were held by one holder, Macquarie PMI LLC. The register in respect of the convertible notes is kept at Macquarie Group Limited's principal administrative office at 50 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

Macquarie Exchangeable Capital Securities

As at 22 April 2015, the $US250 million exchangeable capital securities, issued by Macquarie Bank Limited acting through its London branch, were held by one holder, BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch as common depository for Euroclear Bank S.A./N.V. and Clearstream Banking *société anonyme*. The register in respect of the exchangeable capital securities is kept by Deutsche Bank Luxembourg S.A, as the Registrar for the exchangeable capital securities.

This is the end of the Additional Investor Information.

Glossary

AASB	Australian Accounting Standards Board
the Act	*Corporations Act 2001* (Cth)
ADI	authorised deposit-taking institution
ADR	American Depository Receipt
AEC	Australian Electoral Commission
AGM	Annual General Meeting
AICD	Australian Institute of Company Directors
ALCO	Asset and Liability Committee
AMA	Advanced Measurement Approach
Annual Report	Macquarie Group Limited’s 2015 Annual Report
ANZ	Australia and New Zealand
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
ATO	Australian Taxation Office
AUM	assets under management
BAC	Board Audit Committee
Banking Group	the Banking Group comprises BFS, CAF, CFM, MAM and the trading activities of MSG
BBSW	Australian Financial Markets Association’s bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR etc
BFS	Banking and Financial Services Group
BGCC	Board Governance and Compliance Committee
BNC	Board Nominating Committee
the Board	the Board of Voting Directors of Macquarie Group Limited
BORMs	Business Operational Risk Managers
BRC	Board Remuneration Committee
BRiC	Board Risk Committee
CA	Credit Assurance
CAF	Corporate and Asset Finance Group
CAGR	compound annual growth rate
CDP	Carbon Disclosure Project
CEO	Managing Director and Chief Executive Officer
CER	Certified Emission Reductions
CFM	Commodities and Financial Markets Group
CFO	Chief Financial Officer
COG	Corporate Operations Group
the Code	Macquarie's Code of Conduct
the Company	Macquarie Group Limited
the Consolidated Entity	Macquarie Group Limited and its subsidiaries
Corporate	head office and central support functions including Group Treasury
CRO	Chief Risk Officer
CVA	credit valuation adjustments
Deed	Deed of Access, Indemnity, Insurance and Disclosure
Deed Poll	Indemnity and Insurance Deed Poll dated 12 September 2007
Directors	the Voting Directors of Macquarie Group Limited (unless the context indicates otherwise)
DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
ECL	expected credit losses
ECM	equity capital markets
EMEA	Europe, Middle East and Africa
Environmental Management Plan	Macquarie's internal framework of actions and targets to manage and reduce the environmental impact of its direct operations. The Plan covers Macquarie's corporate offices and associated corporate activities such as travel and procurement
EPS	earnings per share
ERL	Equity Risk Limit

ESP	Macquarie Group Employee Share Plan
ESG	Environmental, Social and Governance
ESR	Environmental and Social Risk
Executive Director	Macquarie's most senior employees including Group Heads, Divisions Heads and senior business unit managers
Executive Key Management Personnel (Executive KMP)	Members of the Executive Committee of Macquarie Group Limited
Executive Voting Director	an executive board member
FIRB	Foundation Internal Ratings Based Approach
FMG	Financial Management Group
the Foundation	Macquarie Group Foundation
Funds	Macquarie-managed funds
FVA	funding value adjustment
GRCC	Group Risk and Compliance Committee
GRI	Global Reporting Initiative
IAD	Internal Audit Division
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPO	initial public offering
JLM	Joint Lead Manager
LGBTI	Lesbian Gay Bisexual Transgender and Intersex
LGL	Legal and Governance Group
LMI	lender's mortgage insurance
LVRs	loan to value ratios
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of Macquarie Group Limited
M&A	mergers and acquisitions
Macquarie Bank, MBL	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board, the Board	the Board of Voting Directors of Macquarie Group Limited
Macquarie ECS, ECS	Macquarie Exchangeable Capital Securities
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie PMI	Macquarie Preferred Membership Interests
Malus	the discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement
MAM	Macquarie Asset Management Group
Management	Macquarie senior management
MBHPL	Macquarie B.H. Pty Limited
MBL	Macquarie Bank Limited
MCN	Macquarie Group Capital Notes
MEL	Macro-Economic-Linkages
MEREP	Macquarie Group Employee Retained Equity Plan
MFHL	Macquarie Financial Holdings Limited
MFHL Group	MFHL and its subsidiaries
MGESOP	Macquarie Group Employee Share Option Plan
MGL	Macquarie Group Limited ABN 94 122 169 279
MIDIS	Macquarie Infrastructure Debt Investment Solutions
MIM	Macquarie Investment Management
MIP	Macquarie Infrastructure Partners Inc.
MIPS	Macquarie Income Preferred Securities
MIRA	Macquarie Infrastructure and Real Assets

Glossary
continued

MIS	Macquarie Income Securities
MPPM	Macquarie Private Portfolio Management
MSG	Macquarie Securities Group
MSIS	Macquarie Specialised Investment Solutions
NCD	negotiable certificates of deposit
NCI	non-controlling interests
NED	Non-Executive Director
NOHC	non-operating holding company
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MAM and CFM that use certain offshore regulated entities of the Non-Banking Group
NPAT	net profit after tax
NUA	Net usable area
OCI	Other comprehensive income
OECD	Organisation for Economic Co-operation and Development
Operating Groups	the Operating Groups consist of BFS, CAF, FICC, Macquarie Capital, MFG and MSG
ORMF	Operational Risk Management Framework
OTC	over-the-counter
PINAI	Philippines Investment Alliance for Infrastructure
Post-2009 DPS	retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity
PPP	Public Private Partnership
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
RAS	Risk Appetite Statement
RMG	Risk Management Group
ROE	return on ordinary equity
RSU	Restricted Share Unit issued under the MEREP
RWA	risk-weighted assets
S&P	Standard & Poor's
SEs	structured entities
SFE	Sydney Futures Exchange
Statutory Remuneration	Statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and as disclosed throughout the Remuneration Report
SYD	ASX-listed Sydney Airport
SYD Distribution	In specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders on 13 January 2014
SYD Securities	SYD stapled securities
SPVs	special purpose vehicles
tCO2-e (Carbon dioxide equivalent in tonnes)	metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential (US Environment Protection Agency)
TJ	terajoules
TMET	telecommunications, media, entertainment and technology
TSR	total shareholder return
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Group Limited as defined in the MGL Constitution
WHS	Work Health and Safety
WHSE	work health, safety and environmental

Contact details

Macquarie Group Principal Administrative Office
50 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office
Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333
Fax: +61 2 8237 1899

Paper stock

Monza Recycled is Certified Carbon Neutral by The Carbon Reduction Institute (CRI) in accordance with the global Greenhouse Gas Protocol and ISO 14040 framework. Monza Recycled contains 55 per cent recycled fibre (25 per cent post consumer and 30 per cent pre consumer) and is FSC Mix Certified, which ensures that all virgin pulp is derived from well-managed forests and controlled sources. It is manufactured by an ISO 14001 certified mill.


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