

# 2016 Annual Report

**Macquarie Group**

Year ended 31 March 2016





# Annual Report

## Contents

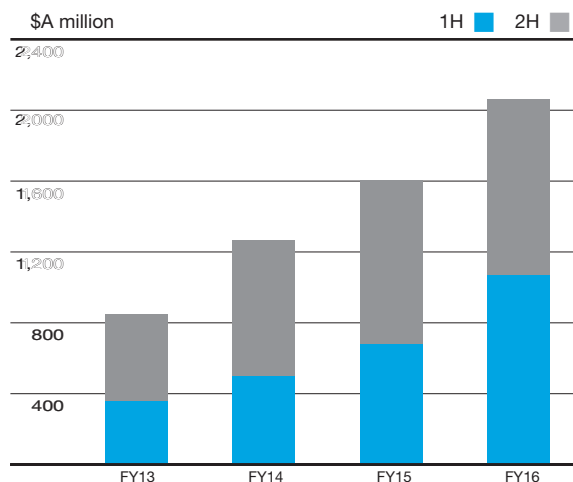
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<b>Financial Highlights</b>	<b>2</b>
<b>Chairman's and Managing Director's Letter</b>	<b>4</b>
<b>Operating and Financial Review</b>	<b>6</b>
<b>Corporate Governance Summary</b>	<b>19</b>
<b>Diversity Report</b>	<b>21</b>
<b>Environmental, Social and Governance Report</b>	<b>25</b>
<b>Risk Management Report</b>	<b>33</b>
<b>Macquarie Group Foundation Review</b>	<b>52</b>
<b>Directors' Report</b>	<b>53</b>
– Schedule 1 – Directors' experience and special responsibilities	59
– Schedule 2 – Remuneration Report	64
– Schedule 3 – Auditor's independence declaration	101
<b>Financial Report</b>	<b>102</b>
– Income Statements	103
– Statements of comprehensive income	104
– Statements of financial position	105
– Statements of changes in equity	106
– Statements of cash flows	108
– Notes to the financial statements	109
– Directors' declaration	217
– Independent auditor's report	218
<b>Ten year history</b>	<b>219</b>
<b>Additional Investor Information</b>	<b>220</b>
<b>Glossary</b>	<b>222</b>

# Financial Highlights

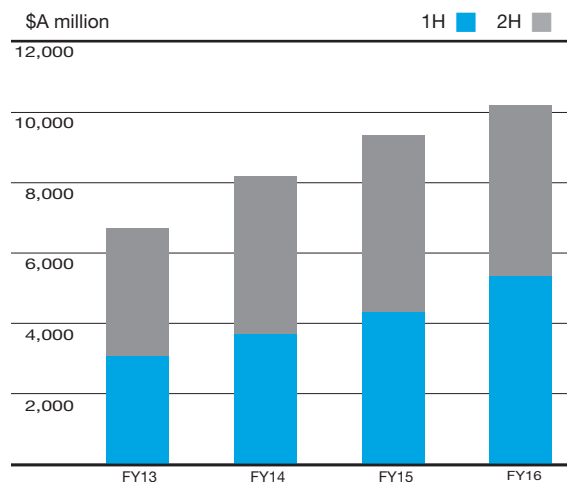
## FY16 Net Profit

**\$A2,063** million ▲  
Up 29% on FY15



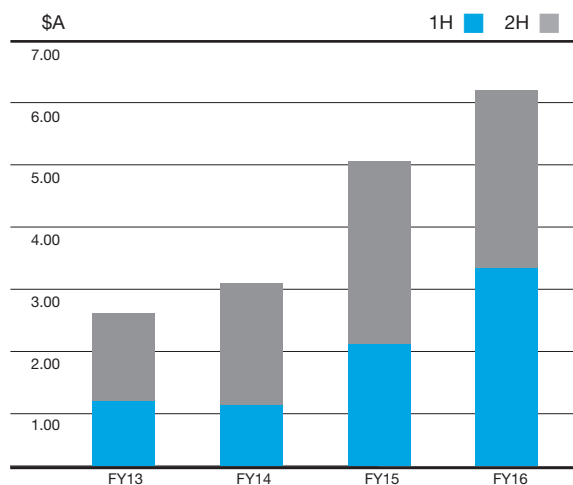
## FY16 Operating Income

**\$A10,135** million ▲  
Up 9% on FY15



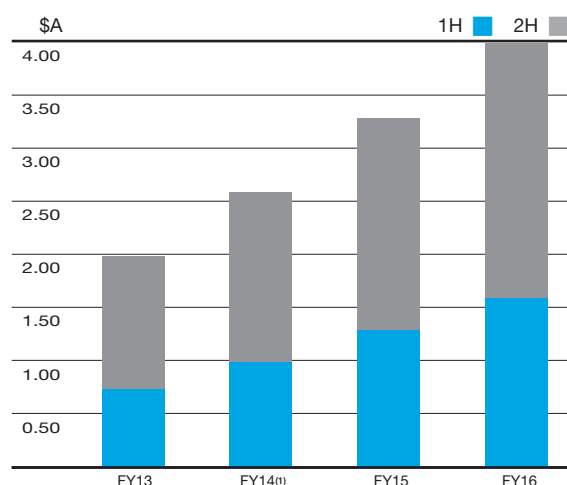
## FY16 Earnings Per Share

**\$A6.19** ▲  
Up 23% on FY15



## FY16 Ordinary Dividends Per Share

**\$A4.00** ▲  
Up 21% on FY15  
(40% franked)

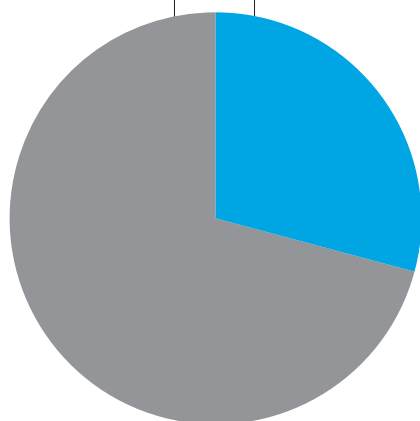


(1) In 2H14 eligible shareholders also benefited from the SYD distribution in January 2014 which comprised a special dividend of \$A1.16 (40% franked) and a return of capital of \$A2.57 per share.

## FY16 Net Profit Contribution<sup>(2)</sup>

By Business Type

Annuity-style 71% Capital markets facing 29%

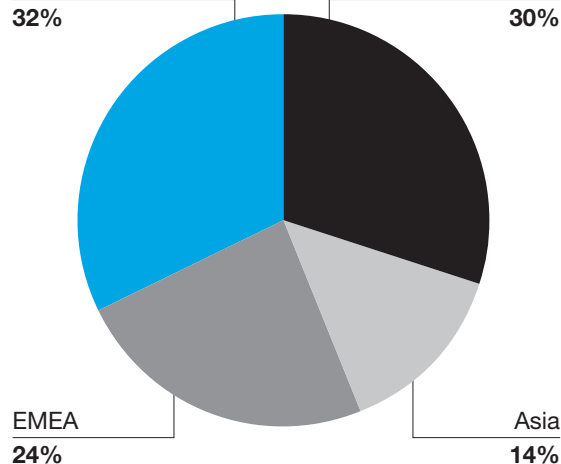


<sup>(2)</sup> Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax. Annuity-style businesses include Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services. Capital markets facing businesses include Macquarie Securities Group, Macquarie Capital and Commodities and Financial Markets.

## FY16 International Income<sup>(3)</sup>

By Region

Australia 32% Americas 30%



<sup>(3)</sup> Net operating income excluding earnings on capital and other corporate items.

## FY16 Return on equity

**14.7%**

Up from 14.0% in FY15



## Assets under management as at 31 March 2016

**\$A479 billion**

From \$A486 billion at 31 March 2015



## FY16 Operating expenses

**\$A7,120 million**

Up 6% on FY15



## FY16 Effective tax rate

**31.0%**

Down from 35.9% in FY15



# Chairman's and Managing Director's Letter

## Continued strong performance

We are pleased to announce Macquarie Group achieved a net profit of \$A2,063 million for the year ended 31 March 2016, up 29% on the prior year.

The Group reported operating income of \$A10,135 million, an increase of 9% on the prior year.

Five of Macquarie's six operating groups achieved a higher net profit contribution<sup>(1)</sup> during the year with record net profit contributions from each of our annuity-style businesses Macquarie Asset Management, Corporate and Asset Finance and Banking and Financial Services.

Our annuity-style businesses had another strong year, with a combined net profit contribution of \$A3,124 million, an increase of 10% on the prior 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 benefited from growth in underlying base fee income, strong performance fees and increased gains on disposal of investments
- Corporate and Asset Finance experienced increased lending and leasing activity including the acquisition of an aircraft portfolio
- Banking and Financial Services experienced continued volume growth in Australian mortgages, business lending, deposits and the Wrap platform.

The net profit contribution from our capital markets facing businesses (Macquarie Securities Group, Macquarie Capital and Commodities and Financial Markets) was \$A1,295 million, a decrease of 3% on the prior year.

Among the capital markets facing businesses:

- Macquarie Securities Group experienced significantly improved trading opportunities, particularly in China in the first half of the year
- Macquarie Capital benefited from gains on sale and continued activity in mergers and acquisitions and Equity Capital Markets (ECM)
- Commodities and Financial Markets experienced challenging credit market conditions particularly in the northern hemisphere, partially offset by increased client activity in commodities resulting from price volatility during the period.

Total Group operating expenses of \$A7,120 million for the year ended 31 March 2016 were up 6%, while the effective tax rate of 31.0% was down from 35.9% in the prior year, reflecting the nature and geographic mix of income and tax uncertainties.

While our Australian franchise maintained its strong position, the offshore businesses continued to grow, with international income accounting for 68% of the Group's total income<sup>(2)</sup> for the year ended 31 March 2016. Total international income was \$A6,734 million for the year ended 31 March 2016, an increase of 4% from \$A6,461 million in the prior year.

## Dividends and Capital

The Board has resolved to pay a final ordinary dividend of \$A2.40 per share (40% franked), up from \$A1.60 per share (40% franked) in the first half. This results in a total ordinary dividend payment for the year ended 31 March 2016 of \$A4.00 per share, up from \$A3.30 in the prior year.

Macquarie has a longstanding policy of holding a level of capital that supports its business and has consistently grown its capital base ahead of business requirements. The Group's APRA Basel III capital was \$A17.2 billion and the Group's surplus was \$A3.9 billion<sup>(3)</sup> at 31 March 2016.

## Professional Conduct

The Board and Management are committed to achieving the highest standards of professional conduct across all Macquarie operations. Compliance with all regulatory requirements and our Company specific policies and procedures is core to our business and has been since inception.

Our *Code of conduct* and *What We Stand For* principles of Opportunity, Accountability and Integrity guide the way that staff are expected to manage their responsibilities and conduct themselves on a day to day basis. It is a fundamental responsibility for all staff to deal honestly and fairly in their relationships with our clients and counterparties. Staff must not engage in any improper, unlawful, or unethical behaviour. There are appropriate consequences for any staff member who fails to meet these high standards.

To assist Board, Management and staff to meet their responsibilities, we have a range of comprehensive and effective programs in place, including reporting, training, monitoring and surveillance. The programs are subject to ongoing review and enhancement. Our formal conduct risk program, which was initiated in 2015, is an example of this continuous improvement approach. We are emphasising that staff must not engage in any actions that may have a negative impact on our clients, or the fair and effective operation of the markets in which we do business. We are enhancing our approach to conduct risk management, including articulating what conduct risk means in each of our businesses and our approach to managing these risks. We have made substantial progress and the program continues to evolve.

Also during the past year, we have continued to reinforce our Company wide expectations of behaviour through multiple mechanisms, including policies, procedures and direct communications to staff.

- (1) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.
- (2) International income is net operating income excluding earnings on capital and other corporate items.
- (3) Calculated at 8.5% Risk Weighted Assets (RWA) including capital conservation buffer (CCB), per *APRA Prudential Standard 110*. The APRA Basel III Group capital surplus is \$A5.3 billion calculated at 7.0% RWA, per the internal minimum Tier 1 ratio of the Bank Group.

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## Environmental, Social and Governance

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

In the year ended 31 March 2016, we continued to embed ESG risk management across the organisation and pursue business opportunities in renewable energy, energy efficiency and ESG research. Our ESG Report provides further details on our approach to ESG matters.

## In the Community

The Macquarie Group Foundation continued its longstanding support of the not-for-profit sector during the year. Since 1985, the Foundation and our staff have contributed more than \$A270 million to thousands of community organisations around the world. This year the Foundation and our staff contributed close to \$A30 million in donations to more than 1,500 community organisations around the world and provided approximately 46,000 hours of voluntary community service.

## Board and Management Changes

As previously announced, Kevin McCann retired as Chairman and as a Voting Director of Macquarie Group and Macquarie Bank on 31 March 2016.

Kevin is highly regarded by the Australian business community. He has a distinguished record of service to corporate Australia, philanthropy and to public service. When our founding Chairman David Clarke suffered ill health, Kevin was appointed Acting Chairman of Macquarie Group and Macquarie Bank from November 2008 until August 2009 and succeeded Mr Clarke as Chairman in 2011. Kevin has ably chaired the Macquarie Boards through challenging global market conditions.

Over the past four years as Chairman, Kevin has presided over Macquarie's continued profit growth, the evolution of its businesses and the growth of its international income which now constitutes 68% of total income. Returns to shareholders have remained strong and Macquarie is recognised as a successful global Australian company.

We thank Kevin for almost 20 years of committed service to Macquarie and wish him the very best for the future.

Independent Director, Peter Warne, has succeeded Kevin as Chairman of both companies. Michael Hawker will succeed Peter as Chairman of the Board Remuneration Committee, effective from 7 May 2016.

## 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 2017 will be broadly in line with the financial year ended 31 March 2016.

The tax rate for the financial year ending 31 March 2017 is currently expected to be broadly in line with the financial year ended 31 March 2016.

Accordingly, the Group's result for the financial year ending 31 March 2017 is currently expected to be broadly in line with the financial year ended 31 March 2016.

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.

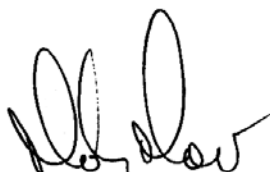
Macquarie remains well positioned to deliver superior performance in the medium-term due to its deep expertise in major markets, strength in diversity and ability to adapt its portfolio mix to changing market conditions, the ongoing benefits of continued cost initiatives, a strong and conservative balance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

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



**Peter Warne**

Chairman



**Nicholas Moore**

Managing Director and Chief Executive Officer  
Sydney  
6 May 2016

# Operating and Financial Review

## for the financial year ended 31 March 2016

### 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 14,300 people globally, has total assets of \$A196.8 billion and total equity of \$A15.7 billion as at 31 March 2016.

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 47 year record of unbroken profitability.

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

#### Central Service Groups

<b>Risk Management Group (RMG)</b> Independent and centralised unit responsible for identifying, assessing and monitoring risks across Macquarie.	<b>Legal and Governance (LGL)</b> Provides a full range of strategic legal advice and support and corporate governance services.	<b>Financial Management Group (FMG)</b> Management of funding and capital through financial, tax and treasury services across the operating groups.	<b>Corporate Operations Group (COG)</b> Driving operational excellence through talent, workplace, technology and market operations support.
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## Macquarie's purpose

Macquarie's purpose is to realise opportunity for the benefit of its clients, shareholders and staff. 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 staff and adherence to them is required under the *Code of conduct* available on Macquarie's website at [macquarie.com/what-we-stand-for](http://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 long record of unbroken profitability.

## Business strategy

Consistent with the principles of Opportunity, Accountability and Integrity, Macquarie adopts 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 dynamically 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 infrastructure, resources and commodities, energy, financial institutions 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 identify and realise opportunity for its clients, community, shareholders and its staff. Ideas for new businesses are typically generated in the Operating Groups. 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 *Risk Appetite Statement (RAS)* approved by the Board

- **adopting a conservative approach to risk management** through Macquarie's strong risk management framework that is 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

Macquarie's risk culture is well established and the risk management framework is embedded across all operations. 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. Staff are made aware that these principles are expected to form the basis of all day-to-day behaviours and actions.

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. The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities.

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.

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

- **conduct risk:** the risk of improper, unlawful, or unethical behaviour or action that may have a negative impact on Macquarie's clients or counterparties or the fair and effective operation of the markets in which Macquarie operates
- **regulatory and compliance risk:** the risk of legal or regulatory sanctions, material financial loss, or loss to reputation Macquarie may suffer as a result of its failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities (not including operational risk failures)

# Operating and Financial Review

## for the financial year ended 31 March 2016

### continued

- **reputation risk:** the risk of loss arising from negative perceptions held by customers, shareholders, counterparties, regulators, market analysts, other relevant parties - including government bodies – and the broader community
  - **credit risk:** 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 repaid or the loss incurred in replicating a trading contract with a new counterparty
  - **market risk:** the risk of adverse changes in the value of Macquarie's trading portfolios from 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:** the risk of loss arising from banking book equity-type exposures. Examples of such exposures include holdings in MAM-managed funds and principal exposures taken by Macquarie Capital
  - **operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events
  - **liquidity risk:** the risk that Macquarie is unable to meet its financial obligations as and when they fall due. Liquidity management is performed centrally by Group Treasury
  - **legal risk:** 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
  - **tax risk:** the risk of loss arising from the misinterpretation of tax regimes and the manner in which they may be applied and enforced
  - **insurance risk:** the risk associated with the provision of life insurance policies. It includes lapse risk, claims risk, asset/liability mismatch risk and expense risk.
- 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 charged with signing-off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. Therefore, 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 the approval document submitted to senior management includes independent input from RMG on risk and return.

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:** Group Heads are responsible for identifying risks within their businesses and operations, and ensuring appropriate management. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of Macquarie
- **understanding worst case outcomes:** Macquarie's risk management approach examines the consequences of worst case outcomes and determines 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 management framework is based primarily on the application of stress tests, rather than statistical models. Macquarie operates a number of sophisticated quantitative risk management processes. The foundation of Macquarie's risk management approach

## Review of Group performance and financial position

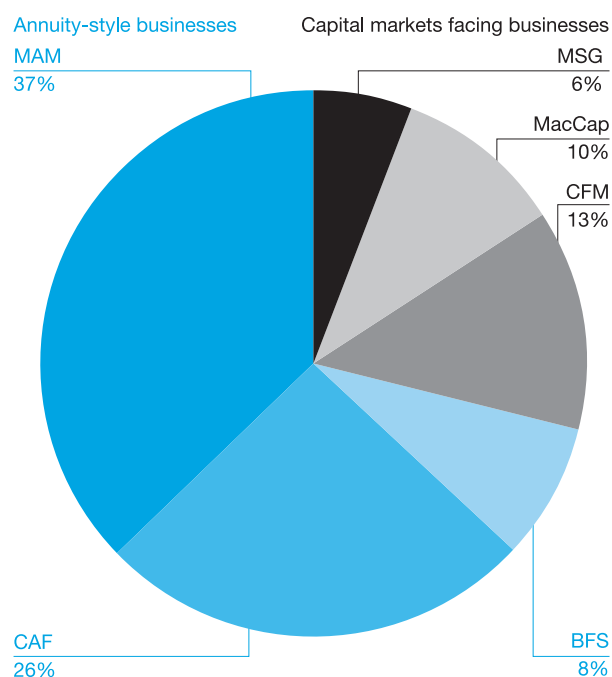
### Group performance

#### Overview

Profit attributable to ordinary equity holders of \$A2,063 million for the year ended 31 March 2016 increased 29% from \$A1,604 million in the prior year.

	31 Mar 2016 \$A million	31 Mar 2015 \$A million	Movement %
Net operating income	10,135	9,262	9
Total operating expenses	(7,120)	(6,740)	6
Income tax expense	(927)	(899)	3
Profit attributable to non-controlling interests	(25)	(19)	32
Profit attributable to ordinary equity holders	2,063	1,604	29

#### FY2016 Net Profit Contribution<sup>(1)</sup> By Operating Group



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

**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 2016 of \$A3,124 million, an increase of 10% on the prior year, with both MAM and CAF favourably impacted by the depreciation of the Australian dollar relative to the prior year. MAM benefited from increased gains on disposal of investments and growth in underlying base fee income, while CAF's higher net profit contribution was driven by the accretion of interest income on loans acquired at a discount and higher net operating lease income due to the acquisition of an aircraft portfolio. 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, MacCap and CFM** – delivered a combined net profit contribution for the year ended 31 March 2016 of \$A1,295 million, a decrease of 3% on the prior year. All of these businesses were favourably impacted by the depreciation of the Australian dollar relative to the prior year. MSG's net profit contribution was up significantly on the prior year due to increased income from improved trading opportunities, particularly in China in the first half of the year, while MacCap benefited from a higher net contribution from principal assets. CFM reported a lower net profit contribution driven by a decline in trading activity in the fourth quarter. The prior year benefited from fee income from the Freeport LNG Terminal transaction, while the current year was impacted by challenging credit market conditions particularly in the northern hemisphere. These were partially offset by a strong contribution from the commodities platform driven by increased client activity resulting from price volatility during the year.

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 \$A10,135 million for the year ended 31 March 2016 increased 9% from \$A9,262 million in the prior year. Key drivers of the changes from the prior year were:

- A 14% increase in combined net interest and trading income to \$A4,346 million for the year ended 31 March 2016 from \$A3,819 million in the prior year. Most operating groups contributed to the increase, with key drivers of the result being:
  - improved trading opportunities in MSG driven by increased market volatility, particularly in China in the first half of the year
  - the impact of the depreciation of the Australian dollar, growth of the motor vehicle portfolio and the accretion of interest income on loans acquired at a discount in CAF
  - strong volume growth in Australian mortgages, business lending and deposits in BFS

# Operating and Financial Review

## for the financial year ended 31 March 2016

continued

- a strong contribution from the commodities platform in CFM with customer flow underpinned by volatility in global commodity prices and strong client flows in foreign exchange and interest rates markets due to ongoing market volatility, partially offset by lower income as a result of challenging market conditions and subdued client risk appetite in secondary markets, which were influenced by a sell-off in US credit markets.
- A 3% increase in fee and commission income to \$A4,862 million for the year ended 31 March 2016 from \$A4,739 million in the prior year primarily driven by:
  - a 14% increase in base fees to \$A1,582 million for the year ended 31 March 2016 from \$A1,388 million in the prior year, largely driven by the impact of the depreciation of the Australian dollar, market movements, raisings and investments, and positive prior year flows, partially offset by lower fee revenue from insurance assets
  - a 6% increase in brokerage and commissions income to \$A888 million for the year ended 31 March 2016 from \$A836 million in the prior year, mainly due to the impact of the depreciation of the Australian dollar in MSG
  - a 7% increase in performance fees to \$A714 million for the year ended 31 March 2016 from \$A667 million in the prior year, including performance fees recognised from Macquarie European Infrastructure Fund 1 (MEIF1) and Macquarie Infrastructure Company LLC (MIC), as well as performance fee income in respect of a UK asset; partially offset by;
  - an 18% decrease in other fee and commission income to \$A716 million for the year ended 31 March 2016 from \$A875 million in the prior year, which benefited from fee income from the Freeport LNG Terminal transaction.
- A 32% increase in other operating income and charges to \$A923 million for the year ended 31 March 2016 from \$A699 million in the prior year primarily driven by:
  - a 43% increase in net operating lease income to \$A894 million for the year ended 31 March 2016 from \$A627 million in the prior year primarily due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year and the impact of the depreciation of the Australian dollar, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015
  - a 27% increase in net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) to \$A410 million for the year ended 31 March 2016 from \$A324 million mainly driven by gains in MAM, including the partial sale of a holding in MIC, and gains in MacCap on listed and unlisted investments
  - a 38% decrease in aggregate impairment charges on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets to \$A222 million for the year ended 31 March 2016 from \$A356 million in the prior year primarily

due to the non-recurrence of impairments recognised in the prior year relating to goodwill on legacy acquisitions in Corporate<sup>(1)</sup>, partially offset by increased charges in MacCap in relation to the underperformance of a number of non-related principal investments, partially offset by;

- the non-recurrence of gains recognised in the prior year in CAF relating to the disposal of the North American railcar operating lease portfolio in January 2015, the restructure of a railcar logistics operating lease facility in August 2014 and the sale of the Macquarie Equipment Finance US operations in March 2015
- a 23% increase in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to \$A574 million for the year ended 31 March 2016 from \$A467 million in the prior year mainly due to the underperformance of certain commodity-related loans in CFM, the underperformance of certain credits in MacCap and portfolio growth as well as the underperformance of certain credits in CAF.

### Operating expenses

Total operating expenses increased 6% to \$A7,120 million for the year ended 31 March 2016 from \$A6,740 million in the prior year mainly due to the following key drivers:

- a 2% increase in employment expenses to \$A4,244 million for the year ended 31 March 2016 from \$A4,143 million in the prior year primarily due to the impact of the depreciation of the Australian dollar on offshore expenses partially offset by the impact of lower average headcount. The compensation ratio of 39.0% for the year ended 31 March 2016 decreased from 42.0% in the prior year
- an 8% increase in brokerage, commission and trading-related expenses to \$A892 million for the year ended 31 March 2016 from \$A824 million in the prior year mainly driven by increased trading-related activity in MSG
- a 34% increase in non-salary technology expenses to \$A587 million for the year ended 31 March 2016 from \$A437 million in the prior year mainly due to the investment in technology projects to support business growth, particularly the Core Banking program in BFS
- a 4% increase in total other operating expenses to \$A1,000 million for the year ended 31 March 2016 from \$A962 million in the prior year largely driven by the impact of the depreciation of the Australian dollar on offshore expenses.

### Income tax expense

Income tax expense for the year ended 31 March 2016 was \$A927 million, a 3% increase from \$A899 million in the prior year. The increase was mainly driven by a 20% increase in operating profit before income tax to \$A3,015 million in the year ended 31 March 2016 from \$A2,522 million in the prior year, partly offset by a decrease in income tax permanent differences. The effective tax rate for the year ended 31 March 2016 was 31.0%, a decrease from 35.9% in the prior year.

The effective tax rate relative to the Australian corporate tax rate of 30% reflects the nature and geographic mix of income, as well as tax uncertainties.

<sup>(1)</sup> Corporate includes head office and central support functions including Group Treasury.



## Group financial position

### Balance Sheet

Growth in the Group's balance sheet since 31 March 2015 has largely been driven by increased business activity across lending and asset financing and Treasury management initiatives. Total assets of \$A196.8 billion at 31 March 2016 increased 5% from \$A188.0 billion at 31 March 2015, while total liabilities increased 4% to \$A181.1 billion at 31 March 2016 from \$A173.6 billion at 31 March 2015.

The key drivers of the movement in the balance sheet include:

- Treasury funding and liquidity management initiatives during the year ended 31 March 2016 including new issuances of long-term debt issued at amortised cost (partially offset by a decrease in short-term debt)
- a decline in market conditions in the second half of the year that led to decreased trading opportunities, mainly in China, resulted in a reduction in trading portfolio assets in MSG and a reduction in payables to financial institutions due to reduced stock lending activity
- increased lending and asset financing activity across the Group, leading to growth in loan assets held at amortised cost, including:
  - CAF's loan and finance lease portfolios, which increased 28% to \$A28.8 billion at 31 March 2016 from \$A22.5 billion at 31 March 2015 mainly driven by the acquisition of the Esanda dealer finance portfolio in November 2015. The acquisition of the Esanda dealer finance portfolio resulted in an associated increase in payables to financial institutions as a result of funding requirements
  - BFS' Australian mortgage portfolio, which increased 16% to \$A28.5 billion at 31 March 2016 from \$A24.5 billion at 31 March 2015 and included the acquisition of a residential mortgage portfolio of \$A1.2 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 \$A1.6 billion at 31 March 2016, a decrease of 58% from \$A3.8 billion at 31 March 2015
- aircraft acquired during the year from AWAS Aviation Capital Limited resulted in growth of the operating lease portfolios within CAF of 68% to \$A10.6 billion at 31 March 2016 from \$A6.3 billion at 31 March 2015. The acquisition of aircraft from AWAS Aviation Capital Limited resulted in an associated increase in payables to financial institutions as a result of funding requirements
- increased deposits in BFS mainly due to organic growth
- increased loan capital primarily due to a \$US750 million subordinated debt issuance in July 2015 that qualifies as Tier 2 capital under Basel III rules and the issuance of \$A531 million of Macquarie Group Capital Notes 2 in December 2015 partially offset by the redemption of the Preferred Membership Interests in December 2015.

Total equity increased 9% to \$A15.7 billion at 31 March 2016 from \$A14.4 billion at 31 March 2015, largely due to net retained earnings generated during the year and new share issuances including the institutional private placement of \$A400 million in October 2015 and the share purchase plan of \$A137 million in November 2015.

### Funding

Macquarie has a stable funding base with minimal reliance on short-term wholesale funding markets. At 31 March 2016, 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) was 4.3 years at 31 March 2016. During April 2016, the AWAS acquisition debt facility was refinanced in full with a maturity profile greater than 5 years. In addition, \$A3.0 billion of the Esanda acquisition debt facility was repaid during April 2016. Taking these transactions into account, the adjusted weighted average term to maturity of term funding maturing beyond one year increased to 4.7 years.

As at 31 March 2016, customer deposits<sup>(2)</sup> represented \$A43.6 billion, or 33% of MGL Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A9.3 billion, or 7% of total funding, and other debt funding maturing within 12 months represented \$A11.6 billion, or 9% of total funding.

Macquarie has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 31 March 2015, MGL and MBL have continued to raise term wholesale funding across various products and currencies.

Macquarie has continued to develop and expand its major funding markets and products with new issuances in the US, Europe and Australia.

From 1 April 2015 to 31 March 2016, MGL Group raised \$A22.5 billion of term funding, including \$A12.9 billion of term wholesale funding, \$A4.4 billion of term secured finance, \$A3.9 billion of syndicated loan facilities, \$A0.8 billion of covered bond issuance and \$A0.5 billion of MCN2 issuance. Wholesale term issuance of \$A12.9 billion includes \$A6.9 billion in unsecured debt issuance in the US market, \$A1.2 billion in unsecured debt in Swiss and Australian markets and \$A4.8 billion in private placements and structured notes. Syndicated loan facilities of \$A3.9 billion includes a \$A1.2 billion Asian Bank Facility and \$A2.7 billion Sterling Facility. Term secured finance of \$A4.4 billion includes \$A1.9 billion of PUMA RMBS, \$A2.3 billion of SMART auto and equipment ABS and \$A0.2 billion of other secured funding.

Macquarie also raised \$A6.0 billion through the Esanda acquisition debt facility, of which \$A3.0 billion was repaid in April 2016 and \$A2.4 billion through the AWAS acquisition debt facility, which was refinanced in April 2016 with a term loan.

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.

<sup>(2)</sup> Represents deposits available to fund Macquarie's assets. Excludes segregated client margin balances.

# Operating and Financial Review

## for the financial year ended 31 March 2016

### continued

#### 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 authorised deposit-taking institutions (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 2016, the Bank Group had a Harmonised Basel III Common Equity Tier 1 Capital Ratio of 12.5% and a Harmonised Tier 1 Capital Ratio of 13.6%. The Bank Group's APRA Common Equity Tier 1 Capital Ratio was 10.7% and its APRA Tier 1 Capital Ratio was 11.8% as at 31 March 2016. The Group remains well capitalised with \$A3.9 billion of eligible capital in excess of the minimum regulatory capital requirements<sup>(3)</sup>.

Macquarie's capital management strategy is outlined in Note 25 to the financial statements contained in the Financial Report.

<sup>(3)</sup> Calculated at 8.5% of the Bank Group's Risk Weighted Assets (RWA) which represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of the capital conservation buffer (CCB), per the 1 January 2016 minimum requirements in APRA Prudential Standard 110. The APRA Basel III Group capital surplus calculated at internal minimum Tier 1 ratio of the Bank Group of 7% is \$A5.3 billion.

#### 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 2017 will be broadly in line with the financial year ended 31 March 2016.

The tax rate for the financial year ending 31 March 2017 is currently expected to be broadly in line with the financial year ended 31 March 2016.

Accordingly, the Group's result for the financial year ending 31 March 2017 is currently expected to be broadly in line with the financial year ended 31 March 2016.

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.

## Macquarie Asset Management (MAM)

MAM is a top 50 global asset manager with \$A476.9 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 <sup>(4)</sup> , operating more than 45 funds globally, with investments in 130 businesses, approximately 330 properties and 2.8 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 \$A337.1 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 \$A1,644 million to Macquarie's total profit from operating groups for the year ended 31 March 2016, an increase of 13% on the prior year. It generated net operating income of \$A2,710 million, an increase of 12% on the prior year.

MAM had \$A476.9 billion in AUM at 31 March 2016, broadly in line with the prior year.

**MIRA** had \$A66.5 billion in equity under management for the year ending 31 March 2016, having raised \$A3.7 billion in new equity during the year including for pan-Asia infrastructure investment, Australian infrastructure, separately managed accounts and capital raised on market by the New York Stock Exchange-listed Macquarie Infrastructure Corporation (MIC).

MIRA invested equity of \$A4.9 billion during the year into: infrastructure assets in Australia, the US, Philippines, India, Korea, Italy, Austria, Singapore, Canada and Mexico; real estate in Mexico and Korea; and agriculture in Brazil and Australia. Asset divestments of more than \$A2.5 billion included a MIRA-managed UK infrastructure asset, Macquarie European Infrastructure Fund 1 (MEIF1) assets, US and Chinese toll roads, an Australian agricultural asset and a Korean infrastructure asset.

MIRA base fees continued to grow with equity raisings and investments, as well as market and foreign exchange impacts, while performance fees of \$A660 million were earned predominately from MEIF1, MIC, Macquarie Atlas Roads, Macquarie Korea Infrastructure Fund, Macquarie International Infrastructure Fund and from co-investors in respect to a UK infrastructure asset.

MIRA had \$A8.6 billion of equity to deploy for the year ended 31 March 2016.

MIRA was recognised as the world's largest manager of infrastructure and third largest manager of pension fund assets invested in alternatives by Towers Watson<sup>(4)</sup>. MIRA ranked first in equity raised for infrastructure over the past five years and was awarded the inaugural Operational Excellence award by *Infrastructure Investor Magazine*. MIRA was named 'Infrastructure Manager of the Year' in *Institutional investor's* 2016 European Money Management Awards.

**MIM** had \$A337.1 billion in assets under management for the year ended 31 March 2016. Base fees were up 11% on the prior year primarily due to foreign exchange impacts and the impact of positive fund flows in the prior year.

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 nine 2016 Lipper Awards<sup>(5)</sup>.

Strong positive net inflows were generated in Asian equities, Australian fixed income and US equities.

MIM continued to expand its global distribution network, with recruitment in the US, the UK, Switzerland, Austria, Italy, the Nordics, Japan, Hong Kong and Australia.

MIM acquired two investment teams in the US managing US small and mid-cap growth, international small-cap, and emerging markets equities strategies. MIM also launched several new funds, including two new quant hedge fund strategies.

**MSIS** continued to grow the Macquarie Infrastructure Debt Investment Solutions (MIDIS) business, with total third party investor commitments on the MIDIS platform of over \$A5.5 billion. MSIS also closed a number of investments, bringing total AUM to over \$A3.0 billion. MSIS raised over \$A900 million for Australian retail principal protected investments and specialist funds. MSIS successfully closed the sale of the almond orchard in August 2015.

<sup>(4)</sup> Towers Watson 2015 Global Alternatives Survey.

<sup>(5)</sup> For more information visit [macquarie.com.au/mgl/au/mfg/mim/about-us/awards](http://macquarie.com.au/mgl/au/mfg/mim/about-us/awards)

# Operating and Financial Review

## for the financial year ended 31 March 2016

### continued

#### Corporate and Asset Finance (CAF)

CAF manages a portfolio of \$A39.4 billion, specialising in corporate and real estate lending and asset financing.

Lending	Asset Finance		
A corporate and real estate credit investing and lending business providing customised capital solutions and financing to its clients through primary and secondary transactions. It is a leading market participant in bespoke primary lending and is a niche acquirer of loans and other 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.	Macquarie Aviation	Macquarie Leasing	Macquarie Energy Leasing
	Provides operating leases of commercial jet aircraft to airlines, helping clients to increase fleet management capability and minimise market and equipment obsolescence risk.	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.	The largest provider of more than seven million traditional and smart meters in the UK mainly to major energy suppliers. Also provides financing solar energy assets in Australia.
	Macquarie Rotorcraft Leasing	CAF Resources	Macquarie Equipment Finance
	A full service helicopter operating leasing business supporting industries including offshore oil and gas, medical transport, search and rescue, utility and executive transport.	Provides finance, operating leases and secured lending for clients in the natural resources sectors globally.	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, and to anticipate further asset acquisitions and realisations at attractive return levels, with secure funding from asset securitisations throughout the cycle.

#### Performance

CAF contributed \$A1,130 million to Macquarie's total profit from Operating Groups for the year ended 31 March 2016, up 2% on the prior year<sup>(6)</sup>. It generated net operating income of \$A1,723 million, up 8% on the prior year<sup>(6)</sup>.

At 31 March 2016, CAF managed an asset and loan portfolio of \$A39.4 billion, up 37% on the prior year.

**Lending's** funded loan portfolio totalled \$A9.5 billion<sup>(7)</sup> at 31 March 2016, down 15% on the prior year due to net repayments and realisations. Portfolio additions of \$A2.8 billion for the year comprised:

- \$A1.4 billion of new primary financings across corporate and real estate, weighted towards bespoke originations
- \$A1.3 billion of corporate loans and similar assets acquired in the secondary market
- \$A0.1 billion of commercial real estate loans acquired in the secondary market.

Notable transactions included the acquisition of two residential mortgage portfolios in the UK totalling £146.9 million, the acquisition of a controlling interest in Energetics, a UK gas and electricity connectors business and the acquisition of debt and equity of an 8.8 mile toll road in Virginia in the US.

Asset quality within the lending portfolio remained sound and the portfolio continued to generate strong overall returns.

**CAF's Asset Finance** portfolio of \$A29.9 billion at 31 March 2016 was up 71% on the prior year due to acquisitions which continue to transition and organic growth. The motor vehicle portfolio of \$A17.4 billion at 31 March 2016, increased 93% on the prior year. In November 2015, CAF acquired the Esanda dealer finance portfolio from ANZ Banking Group for \$A8.2 billion, comprising retail and wholesale dealer finance on motor vehicles across Australia, of which \$A7.5 billion has been acquired as at 31 March 2016. In July 2015, CAF acquired Advantage Funding, a specialty vehicle financier based in the US, with a portfolio of \$A446 million at 31 March 2016.

The aircraft leasing portfolio of \$A8.9 billion at 31 March 2016 increased 94% on the prior year, following the full transition of 83 aircraft committed to purchase from AWAS Aviation Capital in March 2015<sup>(8)</sup>.

The Energy, European Rail and Technology portfolios continue to perform well.

CAF continued its securitisation activity with \$A2.6 billion of motor vehicle and equipment leases and loans securitised during the year.

<sup>(6)</sup> 2H15 included gains on sales of businesses including the North American railcar operating lease portfolio and US equipment leasing business.

<sup>(7)</sup> Includes Real Estate Structured Finance legacy run-off portfolio and equity portfolio of \$A0.3 billion.

<sup>(8)</sup> Out of the original 90 aircraft committed to, the remaining aircraft did not meet conditions precedent to purchase.



## 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 customers through strong mortgage intermediary relationships, a white-label personal banking platform and 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, 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, who we engage with 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 to simplify, streamline and centralise its product and transactional functions.

### Performance

BFS contributed \$A350 million to Macquarie's total profit from operating groups for the full year ended 31 March 2016, an increase of 23% on the prior year. It generated net operating income of \$A1,464 million, up 9% on the prior year.

BFS maintained its strong market position in its core Australian retail businesses, with 1.1 million Australian clients at 31 March 2016. BFS deposits<sup>(9)</sup> increased to \$A40.4 billion at 31 March 2016, up 8% 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 three of its five year program to deliver a Core Banking program with real-time capability.

**Personal Banking:** The Australian mortgage portfolio grew to \$A28.5 billion at 31 March 2016 from \$A24.5 billion at 31 March 2015, representing approximately 2% of the Australian market. This includes \$A1.2 billion in residential mortgage portfolios acquired during the year.

BFS continued to maximise strong growth opportunities that exist through intermediary distribution and white-labelling. The business was awarded iSelect's Partner of the Year and Home Loans Partner of the Year 2015<sup>(10)</sup> and ranked first in the Brokers on Non-Majors 2015 survey by *Australian Broker* for the third year.

BFS launched its intuitive new digital banking offering during the year, including the first Macquarie savings and transaction accounts and new Macquarie Black credit card with premium rewards.

**Wealth Management:** Funds on platform<sup>(11)</sup> grew strongly to \$A58.4 billion at 31 March 2016, up 22% on 31 March 2015 due to strong net inflows and the migration of full service broking accounts to the Vision platform.

During the year, Macquarie Life in force risk premiums increased 12% on March 2015 to \$A250 million. In March 2016, the sale of Macquarie Life to Zurich Australia Limited was announced, and is expected to be completed in the second half of the 2016 calendar year.

In February 2016, BFS announced it had entered into an agreement to provide administration services and develop a new private labeled wrap offering for ANZ Banking Group's wealth administration platform.

In February 2016, BFS launched OwnersAdvisory by Macquarie to provide custom online portfolio advice.

**Business Banking** grew its average deposit volumes by 26% on March 2015<sup>(12)</sup> and the average loan portfolio grew 15% on March 2015<sup>(12)</sup> to \$A6.0 billion.

BFS also delivered further new solutions to improve small and medium-sized enterprise (SME) clients' business productivity including managing billing and payments, with the number of SME clients increasing 6% over the year.

<sup>(9)</sup> BFS deposits exclude any Corporate/Wholesale deposit balances.

<sup>(10)</sup> iSelect Partner Awards 2015.

<sup>(11)</sup> Funds on platform includes Macquarie Wrap, Vision, Equity Portfolio Services and Industry Super Funds.

<sup>(12)</sup> Average balance for the month of March.

# Operating and Financial Review

## for the financial year ended 31 March 2016

### continued

#### 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

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); telecommunications, media, entertainment and technology (TMET); and small-mid caps.

##### Derivatives and Trading Divisions

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 contributed \$A268 million to Macquarie's total profit from operating groups for the full year ended 31 March 2016, an increase from \$A64 million in the prior year. It generated net operating income of \$A1,220 million, up 33 percent on the prior year.

The **Cash Division** experienced mixed levels of activity, with improved client activity in Australia and Asia particularly in the first half of the year, offshore revenues also benefited from the depreciation of the Australian dollar. MSG continued its leading positions for Australian equities, maintaining its equal No.1 rank by Australian institutional investors in the 2015 Peter Lee Associates Survey. Its global research coverage of more than 2,300 listed companies places it in the top 10 research houses globally<sup>(13)</sup>, highlighting the extent of its market and industry knowledge.

ECM activity continued to be strong in Australia where Macquarie was ranked No.1 in ANZ for IPOs (by value) in calendar year 2015, and ranked No.2 for equity and equity-linked ECM deals by Thomson Financial and Dealogic. Notable deals during the year included the \$A5.5 billion National Australia Bank entitlement offer (the largest in Australia), the \$US4.3 billion H-share placement for Haitong Securities, National Australia Bank's £1.6 billion demerger of Clydesdale Bank in the UK, the \$A2.5 billion Origin Energy entitlement offer, Duet Group's \$A1.7 billion placement and entitlement offer, and Origin Energy's \$NZ1.8 billion sell-down of Contact Energy.

The **Derivatives and Trading Division's** overall performance year on year was driven by increased client activity and favourable trading conditions during the first half of the year. These conditions were driven by macroeconomic factors particularly in China that benefited sentiment across the Asia-Pacific region.

Second half activity was again dominated by macroeconomic factors, with market concerns regarding a Chinese-led slowdown in global growth, continued falls in commodity prices, and increasing US interest rates negatively impacting levels of client activity and trading opportunities within markets.

Client demand for retail listed warrant products followed market sentiment across other product lines with strong first half interest followed by weak second half demand. MSG maintained its leading position across Asian markets with No.1 ranked market share in listed warrants in Singapore, No.2 in Malaysia, No.4 in Thailand and No.5 in Hong Kong<sup>(14)</sup>.

<sup>(13)</sup> Thomson I/B/E/S, by coverage.

<sup>(14)</sup> Net outstanding notional on local exchanges.

## 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, renewables and utilities; real estate; resources (mining and energy); and telecommunications, media, entertainment and technology (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 its clients and in response to market opportunities.

### Performance

Macquarie Capital contributed \$A451 million to Macquarie's total profit from operating groups for the year ended 31 March 2016, up 5% on the prior year. It generated net operating income of \$A1,155 million, up 10% on the prior year. The business advised on 395 transactions worth \$A176 billion during the year.

Impairment charges recognised in the current year relate to the underperformance of a number of non-related principal investments across a range of sectors and regions.

In **Australia and New Zealand**, Macquarie Capital delivered a strong performance across all sectors and product groups with increased contribution from principal investments.

In the 2015 calendar year, Macquarie Capital was ranked No.1 in ANZ for number of announced and completed M&A transactions and No.1 in ANZ for IPOs (by value) by Thomson Financial and Dealogic.

Notable transactions for the region include:

- Joint lead manager and joint underwriter on NAB's \$A5.5 billion accelerated renounceable entitlement offer, the biggest ever in Australia
- Acquisition of Apache's Australian oil and gas portfolio in partnership with Brookfield Asset Management for \$US2.1 billion
- Financial adviser to Veda Group Limited on its acquisition by Equifax Inc at an implied enterprise value of \$A2.6 billion
- Sole bookrunner and underwriter for Origin Energy's \$A2.5 billion pro rata accelerated renounceable entitlement offer with retail rights trading.

In **Asia**, Macquarie Capital generated increased deal activity in infrastructure development and the realisation of certain principal investments.

Notable transactions for the region include:

- Joint bookrunner and placing agent for the \$US4.3 billion H-share placement of Haitong Securities Co. Ltd
- Successful sale of a 19.99% interest in Sino-Australian International Trust Co. Ltd to Chongqing Casin Limited Company
- Sole financial adviser to the Light Rail Manila Corporation for the Manila LRT1 extension, operations and maintenance project, with a total project value of PHP45 billion (c.\$US1 billion), including raising PHP24 billion (c.\$US530 million) in non-recourse project finance.

In the **Americas**, Macquarie Capital continued to focus on niche sectors, experiencing subdued M&A activity particularly across industrials.

Notable transactions for the region include:

- Developer, equity sponsor and financial adviser on KentuckyWired, the first fibre optic PPP in the US
- Financial adviser, joint bookrunner and principal investor on Permira and CPPIB's \$US5.3 billion take-private of Informatica
- Sole financial adviser to Kelso & Company on its acquisition of a majority stake in Risk Strategies Company and lead left bookrunner and lead arranger on \$US300 million of senior secured credit facilities to support the transaction
- Financial adviser to Surge Energy Inc. on the \$C430 million disposition of SE Saskatchewan and Manitoba assets.

In **Europe, the Middle East and Africa**, Macquarie Capital focused on key sector strengths with increased principal contribution driven by infrastructure and renewable energy.

Notable transactions for the region include:

- Financial adviser to NAB on the demerger of 75% of Clydesdale & Yorkshire Banking Group and Joint Global Co-ordinator on the simultaneous £400 million London IPO of the remaining 25% on the main market of the London Stock Exchange (LSE) and the Australian Securities Exchange (ASX)
- Financial adviser to Canada Pension Plan Investment Board (CPPIB) and Hermes Infrastructure on the £1.6 billion acquisition of a 33.3% stake in Associated British Ports, the largest port company in the UK.
- Financial adviser to Equistone on the disposal of Sunrise Medical to Nordic Capital.

# Operating and Financial Review

## for the financial year ended 31 March 2016

### continued

#### 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.	Provides specialty lending and balance sheet solutions for middle market borrowers, owners of portfolios of financial assets in the commercial, corporate, consumer and mortgage space.
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 cross-product sales, Structured Commodity Finance, Structured Global Markets and Private & 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 \$A576 million to Macquarie's total profit from operating groups for the year ended 31 March 2016, a decrease of 31 percent on the prior year. It generated net operating income of \$A1,695 million, a decrease of 7% on the prior year.

The result reflected the favourable impact of the depreciation of the Australian dollar, a strong contribution from the commodities platform, challenging credit market conditions particularly in the northern hemisphere and non-recurrence of fee income from the Freeport LNG Terminal transaction recognised in the prior year. Further provisions for impairment were taken on certain underperforming commodity-related loans in the Metals and Energy Capital portfolio.

**Energy Markets** was a significant contributor to CFM's overall result with revenues generated across the global energy

platform, particularly from Global Oil and North American Gas and Power, as continued volatility in global commodity prices underpinned increased customer activity. Macquarie Energy was again ranked by Platts as No.3 US physical gas marketer in North America.

**Metals, Mining and Agriculture** saw improved results across Agriculture and Base Metals from increased client hedging activity. The division also benefited from improved trading conditions across the platform, driven by commodity price volatility. Macquarie was ranked No.1 in Agriculture & Softs Markets in the 2015 Commodity Business Awards, presented by Commodities Now Magazine.

**Fixed Income and Currencies** experienced strong client flows in foreign exchange and interest rate markets due to ongoing market volatility. However, subdued credit markets in the northern hemisphere impacted trading conditions and fee income in asset backed securities.

**Credit Markets** in the US were impacted by challenging market conditions and subdued client risk appetite in secondary markets. The result also reflected lower debt capital markets volumes and fees due to concerns about global growth.

**Futures** had a strong result driven by increased volumes and client activity, particularly in Australia and Europe, as volatility continued in commodity and energy markets.

*This is the end of the Operating and Financial Review.*



## Corporate Governance Statement

Macquarie's Corporate Governance Statement has been approved by the Board and lodged with the ASX. It is available on Macquarie's website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance)

Macquarie's governance practices were consistent with the recommendations in the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Recommendations) throughout the year.

## Corporate Governance at Macquarie

Macquarie's approach to corporate governance 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.

## Ethical and responsible decision-making

The *Code of conduct*, 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
- provides clear guidance to staff on good decision-making and escalation, encouraging staff to speak up and report genuine concerns about misconduct
- reinforces Macquarie's policies, including the *Whistleblower Policy*, in relation to the protection of whistleblowers
- summarises the standards, policies and processes regarding conflicts of interest, disclosure and corruption.

Macquarie established the Integrity Office in 1998. Supporting the group-wide Integrity Officer are Integrity Officers in Macquarie's regional offices around the world. 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 acceptance of risk is an integral part of Macquarie's businesses. Macquarie's core risk management principles have remained stable and continue to be highly effective. The risk management framework incorporates active management and monitoring of key risks. It is designed to ensure that policies and procedures are in place to manage key risks.

## Commitment to shareholders and an informed market

Macquarie believes that shareholders, regulators, rating agencies and the investment community should be informed of all material business events and risks that influence Macquarie in a factual, timely and widely available manner. Macquarie has a continuous disclosure policy that is incorporated in its *External Communications Policy*. Further information for investors including the Annual General Meeting (AGM) webcast, interim and year-end results presentations and a shareholder calendar are available on Macquarie's website at [macquarie.com/investors](http://macquarie.com/investors)

## 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.

The Macquarie Board consists of nine Directors, eight of whom are independent. Nicholas Moore, Macquarie's Managing Director and Chief Executive Officer (CEO), is the only executive Board member. Peter Warne, an Independent Director, was appointed Chairman after the retirement of Kevin McCann on 31 March 2016.

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. A Voting Director (Director) will be considered independent if not a member of Management, and if they are free of any interests or relationships that could materially interfere with their ability to constructively challenge and independently contribute to the work of the Board.

## Board Renewal and Performance

The Board, with the assistance of the Board Nominating Committee (BNC), regularly assesses the skills, experience, tenure and diversity required collectively for the Board to effectively fulfil its role. The Board recognises the importance of undergoing a regular process of renewal via changes in membership to provide it with the benefit of regular new input. The Board reviews its performance and the performance of each Director on an annual basis. A Director's Board membership is subject to their ongoing performance and the Board's need for any specialist skills or experience.

The Macquarie 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, tenure and diversity considered necessary to appropriately govern an ASX-listed global financial services provider. Further details on the skills, experience and tenure of the Board are in Macquarie's Corporate Governance Statement and Schedule 1 of the Directors' Report.

Macquarie's policy on *Board Renewal, Appointment of Directors and Board Performance Review* sets out the fundamental factors relevant to the selection of new Directors, the material terms of their appointment and the process for conducting the review of the Board's performance.

# Corporate Governance Summary

## continued

### Board Committees

Macquarie's five standing Board Committees assist the Board in its oversight role. The Board Risk Committee (BRiC), Board Audit Committee (BAC), Board Governance and Compliance Committee (BGCC), BNC and Board Remuneration Committees (BRC) comprise members who are independent Directors and 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 meeting. Subsequent to each Board Committee meeting, the minutes are included in the Board papers and presented to the Board by the respective Board Committee Chairmen.

The membership of the Board Committees can be found in the Directors' Report. The Board Committee Charters detail the responsibilities of each Committee and how they exercise their authority.

### Responsibilities of Management

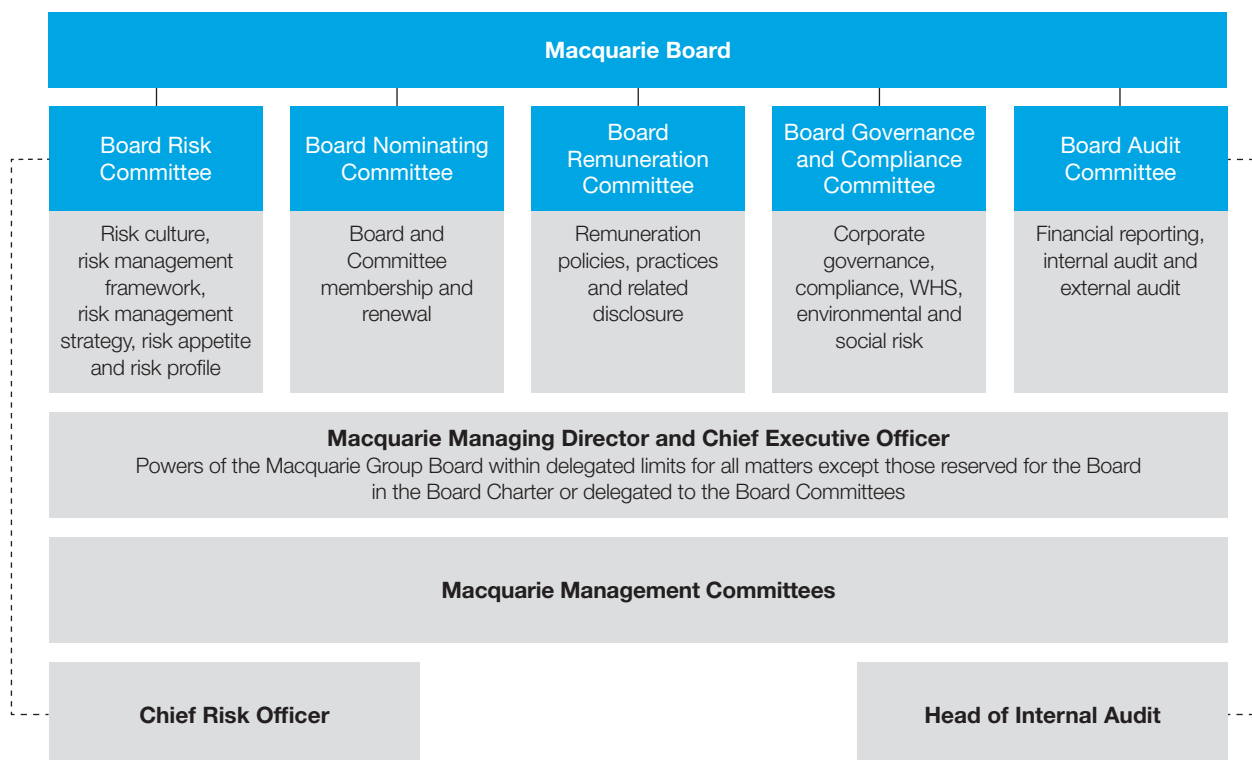
The Board has reserved certain matters for its approval as set out in the *Board Charter*. In addition to delegating specific authorities to its various Board Committees, the Board also determines delegations to Management, approves relevant limits and reviews business developments for consistency within the RAS and risk management strategy approved by the Board.

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 Board meeting. In addition to regular reporting from Management, the Board has unlimited access to Senior Management as well as external advisers.

For further information on Board governance refer to the Corporate Governance Statement and the following documents available on Macquarie's website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance)

- Macquarie Constitution
- Macquarie Board and Board Committee Charters
- Director Independence Criteria
- Policy on Board Renewal, Appointment of Directors and Board Performance Review
- Code of conduct
- External Communications Policy Summary
- MGL Trading Policy

### Corporate Governance framework



*This is the end of the Corporate Governance Summary.*

# Diversity Report

The diversity of Macquarie's staff is fundamental to its success globally. Macquarie's ongoing commitment to workforce diversity and inclusion 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, considering merit and the markets and business environments in which Macquarie operates.

All staff are responsible for promoting workforce diversity and inclusion. Dedicated diversity representatives support each region and, 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 its realisation. The principles contained in Macquarie's *Workforce Diversity Policy* are incorporated in *Our Commitment to diversity and inclusion* statement, available on Macquarie's website at [macquarie.com/diversity](http://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	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)
Board of Directors	33.3	30.0	36.4	30.0	30.0
Executive Committee	10.0	18.2	20.0	23.1	23.1
Division Head <sup>(1)</sup>	9.9	11.1	14.4	16.8	18.5
Senior Executive <sup>(2)</sup>	12.9	13.8	13.6	13.9	14.3
Macquarie Workforce	36.9	36.8	37.0	37.5	37.8

<sup>(1)</sup> Division Head refers to critical roles across Macquarie. It typically includes executives two layers down from the CEO.

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

At the end of the year, Macquarie's permanent workforce comprised 44.3% located in ANZ, 18.5% located in the Americas, 26.5% located in Asia and 10.7% located in EMEA.

# Diversity Report

## continued

### Diversity objectives

The *Workforce Diversity Policy* provides that each year the Board will set measurable objectives for achieving gender diversity. The Board has endorsed the diversity objectives as set out in the following table, which Macquarie has reported on since March 2014.

#### Diversity objectives

Strategic imperative	Outcome sought	Objective
<b>Diverse workforce</b>	Increase the representation of women at Macquarie at all levels.	<ul style="list-style-type: none"> <li>– increase female representation at senior leadership levels: <ul style="list-style-type: none"> <li>– Board of Directors</li> <li>– Executive Committee</li> <li>– Division Head</li> <li>– Senior Executive.</li> </ul> </li> <li>– expand efforts to increase the number of women in the finance industry by promoting finance careers to female secondary school and university students</li> <li>– require female representation on all recruitment shortlists and ask 'if not, why not?'</li> <li>– improve gender balance on Intern and Graduate programs</li> <li>– recruit female lateral hires in proportion to the underlying female candidate pool as a minimum requirement.</li> </ul>
<b>Inclusive workplace</b>	Provide an inclusive and flexible workplace, underpinned by policies that support individuals to reach their full potential.	<ul style="list-style-type: none"> <li>– provide technology and maintain policies to support flexible work arrangements</li> <li>– provide leave benefits and maintain policies to support parental leave</li> <li>– provide parents and carers support before, during and upon return from leave</li> <li>– continue to participate in and sponsor networking and development programs that focus on women and other traditionally under-represented groups in areas such as race/ethnicity and disability.</li> </ul>
<b>Robust meritocracy</b>	Embed equity and transparency in all people practices and processes including remuneration, promotion, succession, retention, performance and development.	<ul style="list-style-type: none"> <li>– maintain pay equity for like roles and performance</li> <li>– maintain equality for men and women in promotion decisions</li> <li>– require that participation in development and leadership programs is representative of the underlying workforce demographics</li> <li>– retain women in the same proportion as men</li> <li>– maintain high return to work rates for staff on parental leave</li> <li>– maintain high retention of staff returning from parental leave.</li> </ul>
<b>Integration and awareness</b>	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.	<ul style="list-style-type: none"> <li>– 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</li> <li>– measure and assess diversity statistics in relation to these activities and decisions, holding managers accountable for inclusive practices.</li> </ul>

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## **Progress FY2016**

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 FY2016 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 graduate programs increased globally in FY2016 compared with FY2015.

As part of its graduate recruitment campaigns, Macquarie continues to sponsor female university societies, promote opportunities to a diverse pool of students on campus and actively mentor females through the recruitment and selection process. Macquarie also leverages work undertaken at an industry level to promote finance/banking careers to female students in secondary schools. Independently, Macquarie hosts events aimed toward high-performing high school 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.

### ***Inclusive workplace***

Flexibility is acknowledged as a key enabler of workforce diversity and inclusion. Macquarie recognises that working flexibly means different things to different people and therefore exists across Macquarie in many forms, such as changes to hours, locations and patterns of work. Flexibility is offered in response to a range of reasons including family or carer's responsibilities, pursuit of further studies, sporting commitments, community work, phased retirement or a career break. Staff may also achieve flexibility by accessing leave without pay, study and exam leave and purchased leave.

Ultimately Macquarie empowers its staff to manage their work and time to suit their own personal situation, so they can achieve their career and personal goals.

Macquarie equips its people managers to lead a flexible workforce through training that shares practical tips and information on how managers and teams can help to support the various arrangements of their colleagues.

This training provides a practical overlay to Macquarie's well-established *Flexible Working Policy* and complements the existing initiatives in place that support working parents and those with carer's responsibilities. These initiatives include childcare centres, backup child/adult/eldercare, nursing mothers' facilities in all regions, return-to-work coaching for parents and employee network groups for families and carers. The vast majority of Macquarie staff are able to access some

form of company paid parental leave provisions and all part-time and full-time employees are eligible for the same types of benefits unless there is a local legal or regulatory requirement to restrict eligibility on that basis.

Macquarie increased its participation in the CareerTrackers internship program in FY2016, placing 19 Indigenous students across seven of Macquarie's business groups in Australia. In addition to our continuing partnership with Australian Network on Disability, Macquarie partnered with the National Disability Recruitment Coordinator to promote disability awareness and inclusion. Macquarie continues to partner with the East London Business Alliance, an organisation focused on placing university graduates from disadvantaged East London backgrounds and communities.

Macquarie continues to participate actively in women's sponsorship, mentoring and networking programs, both internally and externally in all regions, including the Chief Executive Women's Leaders Program (in both Sydney and Singapore), the Women in Banking and Finance Mentoring program and the FTSE 100 Mentoring Program, 30% Club Hong Kong, Women's Foundation in Hong Kong, and Association of Women in Finance Tokyo. Additionally, Macquarie is a Platinum Partner of Heads over Heels (a membership-based organisation that provides women entrepreneurs in Australia with access to strategic networks) and in the UK Macquarie is also the principal sponsor of the Women in Banking and Finance Young Professional Award.

Ultimately, the strength of Macquarie's diversity is underpinned by inclusion. This year Macquarie launched a program (Macquarie Plus) designed to provide staff with individual choices and opportunities to be their best selves at work and at home, and in so doing, creating and embedding a culture of inclusion (refer to Spotlight on Macquarie Plus on page 24).

### ***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 *Macquarie Global Orientation Program* and the *Macquarie Director Program* both introduce and reinforce 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 Operating and Central Service 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

Reflecting the focus on parents and carers, Macquarie's global return-to-work rate was 97% in FY2016 and Macquarie continues to achieve high retention rates globally for 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 ensuring that workforce diversity and inclusion is an integral part of the way it does business. An area of focus for Macquarie over the past year has been the continued roll out of *Conscious Decision-Making* training. This training helps leaders improve the quality of their decision-making and to become more inclusive leaders, by recognising how unconscious bias can affect perceptions, judgements and interactions in the workplace. So far more than 2,000 staff globally, including more than 35% of the Macquarie director population, have participated in the training.

Macquarie continues to invest in promoting and supporting opportunities for staff to engage in initiatives such as business or region-specific Diversity Weeks, National Aboriginal and Islander Day Observance Committee and White Ribbon Day (Australia's only national, male led campaign to end men's violence against women), and international days of celebration such as International Women's Day, International Day Against Homophobia and Transphobia and World AIDS Day.

Macquarie's employee network groups continue to expand, with membership now exceeding 3,500 members globally, providing staff with opportunities to exchange ideas, build relationships and to support Macquarie's diversity and inclusion strategy. 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, Veterans, and First Australians (focused on Aboriginal & Torres Strait Islanders).

In particular, Macquarie's global Pride network (with more than 600 members) continues to promote LGBTI workplace inclusion through training, sponsorships, community partnerships and fundraising activities. Macquarie has also established a network of LGBTI Allies in the UK with over 100 staff agreeing to advocate equality in the workplace for their LGBTI colleagues. Macquarie was the platinum sponsor at the 2015 Pride In Practice conference in Australia, and achieved a Top 10 position in the 2015 Australian Workplace Equality Index, a national benchmark on LGBTI workplace inclusion.

Additionally in the UK, Macquarie achieved a ranking in the Top 100 employers on the Stonewall Workplace Equality Index 2016. The Pride EMEA employee network was also recognised as a highly commended group in the rankings. In the US, the Foundation on behalf of Pride@Macquarie was awarded the SAGE (Services and Advocacy for GLBT Elders) Philanthropy Award.

### **Spotlight on Macquarie Plus**

Macquarie Plus is the holistic staff wellbeing program designed to provide Macquarie people with individual choices and opportunities to be their best selves at work and at home, and in so doing, creating and embedding a culture of inclusion.

It includes all of the non-financial benefits of working at Macquarie and encompasses: the workplace environment; physical and psychological wellbeing; and building a sense of community amongst staff.

Specifically, Macquarie's workplace environment incorporates sustainability into design features that improve the health and wellbeing of staff, such as access to natural light, fresh air, open spaces and fit-outs that support connectivity between teams.

Targeted health and wellbeing initiatives vary across regions and examples include onsite health assessments (such as skin cancer screening and heart health checks), seminars on diet and nutrition, and onsite exercise classes (such as yoga, pilates and boxing).

Macquarie Plus community groups are forming around staff-driven areas of interest such as fitness, music and gardening. These provide an opportunity for staff to informally engage with colleagues away from day-to-day work and complement the well-established employee network groups.

Macquarie Plus helps all staff to own their own health and wellbeing, to make the most of being part of the Macquarie community, and ultimately to bring their whole selves to work.

*This is the end of the Diversity Report.*

# Environmental, Social and Governance Report

Macquarie's Board and Management view the commitment to ESG performance as part of their 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 structures its ESG approach around focus areas considered to be material to the business. Underpinned by Macquarie's *What We Stand For* and the *Code of conduct*, these focus areas reflect the risks and opportunities identified by the business and the issues of interest to Macquarie's stakeholders including:

- business conduct and ethics<sup>(1)</sup>
- ESG risk management
- investments, markets and products
- sustainability in direct operations
- people and workplace.

To gain a complete view of Macquarie's ESG approach, this ESG report should be read in conjunction with other sections of this Annual Report and more detailed information provided on the Macquarie website at [macquarie.com/ESG](http://macquarie.com/ESG)

In the year ended 31 March 2016, Macquarie continued to embed ESG within its diverse activities and drive new business opportunities. Highlights include:

- assessment of over 120 transactions and advisory mandates under the *Environmental and Social Risk Policy*
- continuing to support the transition to a lower carbon economy by investing in and advising on renewable energy, energy efficiency and clean technology with over 5,525MW of diversified renewable energy assets in operation or under management
- 50 Martin Place awarded the 2015 adaptive re-use accolade at the annual National Trust Heritage awards
- reducing total Scope 2 and Scope 3 emissions for the fifth consecutive year amounting to 38% reduction from our baseline
- maintaining carbon neutrality across energy use in premises and corporate air travel
- ongoing investment in our staff with 5,330 classroom events and 156,000 online courses and knowledge tests delivered.

## ESG governance

The Board is responsible for approving Macquarie's ESG framework including major ESG policies. In accordance with its Charter, the BGCC assists the Board in adopting appropriate governance standards and reviewing the operation of environmental and social risk management policies. Responsibility for implementation of the ESG framework and related board-approved policies resides with Management.

Macquarie's Environmental and Social Risk (ESR) team coordinates a diverse range of ESG activities, including

developing and implementing Group-wide and business specific policies, conducting transaction reviews, providing advice on ESG risks and opportunities and facilitating training. The ESR team is part of RMG Credit and regularly reports to the BGCC on ESG and work health and safety related matters.

## ESG risk management

### Group-wide ESG risk management

Macquarie views management of material ESG risks as a component of the broader risk management approach detailed in the Risk Management Report. Macquarie recognises that failure to manage ESG risks could expose Macquarie to commercial, reputational and regulatory impacts or affect communities and other external parties. As a key business priority ESG risks are managed through a well-established framework of ESG-related policies and practices covering:

- ethical conduct by staff
- corporate governance
- identification, assessment and management of environmental and social risks
- oversight and management of Work Health and Safety (WHS)
- approval and management of new businesses or significant changes to existing business
- 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
- protection of personal information, including cyber security
- engagement by Macquarie and its staff in the wider community, including volunteering, capacity building and matched donations.

Under the *Code of conduct* all staff share a responsibility for identifying and managing environmental and social issues as part of normal business practice. Staff are supported by RMG, as well as through access to the ESR team, ESG research and specialist training.

<sup>(1)</sup> Business conduct and ethics are discussed further in the Corporate Governance Summary in this Annual Report, and in the Corporate Governance Statement on the Macquarie website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance)

# Environmental, Social and Governance Report

## continued

### Managing environmental and social risk in transactions

Understanding the environmental and social performance of Macquarie's clients and investments and managing associated risks is an important component of the risk management framework.

In FY2016, Macquarie strengthened environmental and social risk management in investment decision-making through the implementation of the Group-wide *Environmental and Social Risk Policy (ESR Policy)*. The *ESR Policy* provides a robust process to assess, manage, mitigate, monitor and report environmental and social risks in client on-boarding and across a broad range of transactions including financing, lending, leasing and advisory. The *ESR Policy* takes a precautionary approach to environmental and social issues including labour and employment practices, human rights, resource efficiency, pollution prevention, biodiversity and cultural heritage. Based on international guidelines including the International Finance Corporation Performance Standards, the *ESR Policy* provides escalated decision-making and approval processes for material environmental and social risks. Transactions may be reviewed by the CRO, Executive Committee or Macquarie Board.

The ESR team supports the implementation of the *ESR* and *WHS Policies*, reviewing transactions and providing specialist advice and training to people in key risk functions and business groups. During the year, in-person training was delivered to more than 360 risk managers across the organisation and to specific business groups with greatest potential exposure to environmental and social risks. In addition, environmental and social risk requirements are integrated into online compliance and *Code of conduct* training completed by all staff.

In FY2016, 87 transactions were assessed under the *ESR Policy* and 40 advisory mandates were referred to the ESR team for review.

For operating assets in which Macquarie has an interest, Macquarie continued to facilitate work health, safety and environmental management improvements through the implementation of the *WHS* and *ESR Policies* and associated frameworks, which are based on international standards<sup>(2)</sup>.

<sup>(2)</sup> 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.

### Transactions assessed under the ESR Policy by region

Region	Number of transactions
Americas	31
ANZ	14
Asia Pacific	5
EMEA	37

### Transactions assessed under the ESR Policy by industry

Industry Group	Number of transactions
Consumer finance products	7
Defence	4
Energy	16
Gaming	4
Infrastructure	17
Manufacturing	8
Mining	14
Real estate	4
Other	13

### Climate change

Climate change presents significant challenges to society and generates both risks and opportunities for Macquarie's business and stakeholders. Consistent with its strong risk management focus, Macquarie considers climate change and future carbon constraints 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.

Macquarie uses its expertise in clean technology, renewable energy and environmental markets to support the transition towards a lower carbon economy by:

- providing clients and staff with research on the economic, policy and business impacts of climate change
- assisting industry participants to prepare for compliance with emissions regulation and provide emissions risk management products
- investing in the renewable energy, clean technology and energy efficiency sectors.

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.

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## Investments, markets and products

Macquarie continues to seek out opportunities for innovative investments, markets and products with an ESG focus. This section presents highlights of activities undertaken in FY2016 to manage and respond to sustainability challenges and opportunities.

### ESG research and collaboration

Macquarie has industry-leading analysts dedicated to publishing specialist ESG and alternative energy research. The analysis of ESG issues complements our bottom-up stock valuations and analysis. Macquarie published specialist ESG reports in FY2016 covering topics such as employee engagement, company ESG ratings and corporate governance. In addition to published research, Macquarie hosts corporate and investor engagement programs relating to ESG issues.

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 more than 80 pieces of research in FY2016 and covered over 30 alternative energy stocks. In FY2016, Macquarie published a series of reports focused on the global solar sector and held its 8<sup>th</sup> Alternative Energy Conference in London.

During FY2016, 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.

### 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 is supporting the transition to a lower carbon economy by servicing 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 5,525MW of diversified renewable energy assets in operation.

Investment and advisory activities over the past 12 months included:

- Waihonu Solar: MIC, a listed US infrastructure fund, expanded its portfolio of wind and solar power facilities to 267MW of generating capacity with an investment in Waihonu Solar, an 8MW-DC solar project currently under construction in Hawaii
- San Carlos Solar: Macquarie invested in a 45MW solar farm project in San Carlos City in Negros Occidental, in the Visaya region of the Philippines through the Philippine Investment Alliance for Infrastructure (PINAI) fund
- Negros Island Solar Power project: The PINAI fund acquired a majority stake in the Negros Island Solar Power project, which comprises two solar farms, also in Negros Occidental, with 32MW in La Carlota and 48MW in Manpla

- Hydro Dolomiti Enel: Macquarie European Infrastructure Fund 4 acquired a 40% stake in Hydro Dolomiti Enel (now renamed Hydro Dolomiti Energia). The business operates 28 hydropower plants, mainly in the Province of Trento, Italy with a total installed capacity of ~1,280MW
- Galloper Offshore Wind Farm: Macquarie Capital acquired a 25% stake in the Galloper offshore wind farm. The project comprises a 336MW offshore windfarm to be constructed in the North Sea, 27km off the coast of Suffolk, UK
- Baltic 2: Macquarie Capital acquired a 49.9% stake in the German offshore wind project Baltic 2 from the German utility EnBW for around €720m. Baltic 2, a 288MW offshore wind farm in the Baltic Sea was officially opened in September 2015
- Ararat Wind Farm: Macquarie Capital acted as sole financial advisor to RES Australia Pty Limited on the project financing of the Ararat Wind Farm development, a 242MW wind farm development located 180km northwest of Melbourne, Victoria.

Macquarie provides financing to renewable energy businesses, tailoring funding instruments to meet the needs of the client. Examples of transactions in FY2016 included:

- Financing residential solar photovoltaic rooftop systems in the UK. Macquarie originates, installs and owns the systems with homeowners benefitting from usage of the generating capacity with the excess sold into the grid. The total installed generating capacity to date is c41MWp
- Providing financing to build ground-mounted solar projects in the UK.

### 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 trades 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.

# Environmental, Social and Governance Report

## continued

### 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; energy storage solutions; distributed generation; energy efficient lighting systems (including LED); heating (including biomass boilers and heat pumps); ventilation and air conditioning; smart building systems; and electric vehicles.

### Smart metering

In FY2016, Macquarie continued to increase its smart meter facilities to UK energy retailers. Committed facilities are now in place to fund more than £1.0 billion of smart meters and associated equipment under the UK mandated rollout by the end of 2020. These facilities enable the accelerated roll-out of smart gas and electricity meters which assist with efficient energy management in the industrial, commercial and residential sectors.

Macquarie owns a portfolio of more than 7.5 million traditional and smart gas and electricity meters in the UK, with more than one million smart meters rented to energy retailers and approximately 60,000 new meters funded each month.

### Solar photovoltaic system and battery storage financing

Macquarie Energy Leasing continues to expand its commercial rooftop solar and battery storage 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 and is evolving opportunities with major utilities to fund disruptive technologies.

### ESG in funds management

Macquarie's funds management businesses have an ongoing commitment to evaluating ESG factors in investment decision-making and engaging with investment managers on ESG issues. In FY2016 MAM strengthened its commitment by becoming a signatory to the United Nations Principles of Responsible Investment (PRI). The PRI provide an external framework for reporting and continuous improvement of ESG integration.

Macquarie's experienced teams offer clients specialised investment products tailored to 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 was \$US713 million as at 31 March 2016
- Macquarie Private Portfolio Management (MPPM) offers wholesale clients customised investment solutions aligned to their specific ESG goals or screening preferences. Wholesale 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 \$A1.2 billion.

### Sustainability in direct operations

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.

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 (EMP). The EMP reflects the initiatives to be implemented to reduce resource usage and maintain carbon neutrality, occupy and invest in sustainable buildings and improve the sustainability of Macquarie's supply chain.

### Reducing emissions from energy use

In the year ended 31 March 2016, Macquarie's total Scope 2 and Scope 3 emissions decreased by 6% from FY2015. FY2016 is the fifth consecutive year of absolute emission reductions. Scope 1 emissions are not reported by Macquarie as they are not material, comprising less than 1% of Macquarie's total emissions in Australia.

Macquarie's total Scope 2 emissions decreased by 9% from FY2015. This reduction is the result of a continued focus on energy use in all Macquarie premises globally, including a specific program of data centre virtualisation, implementation of energy saving initiatives at No 1 Martin Place and ongoing emphasis on occupying sustainable buildings.

Macquarie's Scope 3 emissions decreased by 3% compared with FY2015, largely due to updates in emission factors and a slight reduction in flight miles. Macquarie continues to encourage the use of video conferencing and has seen an increase of 5% from FY2015 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. In FY2016, to meet this commitment, Macquarie purchased and retired a diverse portfolio of voluntary carbon 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 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.

### Improving resource efficiency

Macquarie continues to roll out technology and behavioural initiatives to reduce paper use and, where tenancy arrangements permit, reduce waste and manage water consumption.



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In FY2016, paper use decreased by 31% compared to the FY2012 baseline. 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 90% 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 FY2016, waste in Sydney offices reduced by 23%, from 1,129 tonnes to 865 tonnes. The waste recycling programs in these offices resulted in the recycling of 54% of total waste, diverting over 467 tonnes of waste from landfill in FY2016.

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 procurement strategy, Macquarie includes sustainability clauses within tender documents. These clauses include consideration of human rights, safe, fair and ethical working conditions, environmental performance and supplier diversity and are used by the Business Services Division (Sourcing and Vendor Management) as a factor in supplier selection. In FY2016, Macquarie initiated a program to update its sustainable procurement strategy.

# Environmental, Social and Governance Report

## continued

### Carbon and Energy Data for FY2016

		Units	Change			
			Baseline <sup>(1)</sup>	FY15 <sup>(2)</sup>	FY16	Prior Year % Baseline %
Scope 2 Indirect	Electricity emissions:	tCO2-e				
	— corporate offices and data centres <sup>(3)</sup>		49,632	41,699	37,158	(11) (25)
	— base buildings <sup>(4)</sup>		—	1,558	2,174	40 —
	Total electricity emissions		<b>49,632</b>	<b>43,257</b>	<b>39,332</b>	<b>(9) (21)</b>
Scope 3 Indirect	Business air travel emissions <sup>(5)</sup>	tCO2-e	<b>78,018</b>	<b>41,954</b>	<b>40,721</b>	<b>(3) (48)</b>
Total Emissions	Total Scope 2 and Scope 3	tCO2-e	<b>128,941<sup>(1)</sup></b>	<b>85,211</b>	<b>80,053</b>	<b>(6) (38)</b>
Energy	Macquarie energy use:	TJ				
	— corporate offices and data centres		237	221	204	(8) (14)
	— base buildings		—	7	9	42 n/a
	Total Macquarie energy use		<b>237</b>	<b>228</b>	<b>213</b>	<b>(7) (10)</b>
Per Capita Emissions	Electricity emissions per capita:	tCO2-e per person				
	— corporate offices and data centres		3.93	2.97	2.69	(9) (31)
	— base buildings		—	0.11	0.16	42 n/a
	Total emissions per capita		<b>3.93</b>	<b>3.08</b>	<b>2.85</b>	<b>(7) (27)</b>
	Business air travel emissions per capita	tCO2-e per person	<b>5.34</b>	<b>2.99</b>	<b>2.95</b>	<b>(1) (45)</b>

(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) Some numbers in this column have been revised from last year's Annual Report to reflect updated invoice data and emissions factors for air travel.

(3) 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<sup>2</sup>
- 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.

(4) 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. FY2016 is the first complete financial year of base building energy use data

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

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## 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 broad range of programs that reflect its *What We Stand For* principles and support the development, diversity and wellbeing of its staff. This ensures the business continues to meet the highest standards and serves the evolving needs of its stakeholders.

### Diversity and inclusion

Macquarie's ongoing commitment to workforce diversity and inclusion 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 the globe.

More detailed information about Macquarie's approach to diversity and inclusion is provided in the Diversity Report and on the Macquarie website at [macquarie.com/diversity](http://macquarie.com/diversity)

### Learning and development

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

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

Since 1 April 2015, over 5,330 classroom events have been delivered globally to Macquarie staff. A further 156,000 online courses and knowledge tests have been completed by staff 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 matters) as well as leadership courses and materials on financial services products.

In 2014 Macquarie launched a global leadership development program targeted at new director level staff and designed to focus on both business and people leadership skills. Since then over 500 staff globally have enrolled in the program, with strong business and participant feedback. Building on this success, an extension program aimed at Macquarie's more senior directors was piloted in late 2015, with global rollout taking place in 2016.

Macquarie also continues to focus on developing management capability more broadly through the frontline manager program (370 participants during FY2016) and investment in executive coaching and mentoring initiatives.

In addition to Macquarie-delivered programs, many staff benefit from sponsored education and can pursue career development opportunities at independent institutions such as business schools and through professional bodies.

Macquarie 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. This includes an emphasis on communicating Macquarie's *Code of conduct* and *What We Stand For* principles and reinforcing the ongoing importance of effective risk management and behaviours across all Macquarie businesses and regions.

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

Regular appraisals, including goal setting and ongoing career development, are a key part of performance measurement and support Macquarie's merit based culture. As well as encouraging regular and ongoing feedback with managers, Macquarie requires all staff to have at least one formal annual appraisal session with their manager. During these appraisals, staff 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 used 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.

### Workplace Health, Safety and Wellbeing

Macquarie has a comprehensive work health and safety framework which aims to provide an injury free workplace for all staff. This is achieved by providing safe work environments and completing workplace safety inspections to identify and eliminate hazards. In addition to this, global health and safety representatives are appointed to assist with reporting hazards and the resolution of incidents.

Macquarie's commitment to providing a safe workplace has resulted in consistently low prevalence and severity of workplace incidents. In the year ended 31 March 2016, the Lost Time Injury Frequency Rate (LTIFR) across Macquarie's global workplaces was 0.4<sup>(3)</sup>.

<sup>(3)</sup> LTIFR is the number of lost time injuries per one million hours worked.

# Environmental, Social and Governance Report

## continued

Macquarie endeavours to promote the personal health and wellbeing of its staff. The wellbeing program, Macquarie Plus, provides a range of initiatives designed to encourage staff to own their health and wellbeing at home and at work, including:

- health screenings and assessments
- educational seminars focusing on diet and nutrition, positive psychology and family health
- targeted sessions for graduates focusing on psychological wellbeing
- flu vaccinations
- dietician consultations
- confidential counselling services (Employee Assistance Program).

### 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, staff and the wider community. More detailed information about Macquarie's approach to stakeholder engagement is provided on the Macquarie website at [macquarie.com/ESG](http://macquarie.com/ESG)

### 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. Macquarie also makes submissions, both verbally and in writing, on a range of policy related topics.

Macquarie has a longstanding and consistent policy regarding 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 2015, Macquarie's political contributions in Australia totalled \$A325,500: Liberal Party \$A190,300; Australian Labor Party \$A102,600; and National Party \$A32,600.

Cash contributions accounted for 6% of total contributions in the year ended 30 June 2015. 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 FY2016.

### About these disclosures

Macquarie is seeking to transition to G4 and has used the GRI G4 reporting principles to guide its ESG disclosures. The content of the disclosures is based on Macquarie's ESG focus areas as confirmed through an external review, the interests of stakeholders, including investors and analysts, and the applicable GRI indicators.

This year Macquarie's ESG disclosures comprise the ESG report, relevant sections of the Annual Report and the Macquarie website. A GRI index is available on Macquarie's website at [macquarie.com/ESG](http://macquarie.com/ESG)

*This is the end of the Environmental, Social and Governance 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 key priority.

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. Staff are made aware that these principles are expected to form the basis of all day-to-day behaviours and actions.

Board Committees, Management Committees and ultimately individuals support the Board in its oversight; for further detail refer to Macquarie's *Corporate Governance Statement* available at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance)

## Macquarie's risk management framework

Macquarie's risk management framework consists of its systems, structures, policies and processes. Under the framework staff are responsible for identifying, measuring, evaluating, monitoring, reporting and managing material risks.

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

The first line of defence is at the business level, where primary responsibility for risk management lies. Part of the role of all business managers throughout Macquarie is to ensure they manage risks 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:** Group Heads are responsible for identifying risks within their businesses and operations, and ensuring appropriate management. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of Macquarie
- **understanding worst case outcomes:** Macquarie's risk management approach examines the consequences of worst case outcomes and determines 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 management framework is based primarily on the application of stress tests, rather than statistical models. Macquarie operates a number of sophisticated quantitative risk management processes. The foundation of Macquarie's 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 charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. Therefore, 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. The approval document submitted to Senior Management includes independent input from RMG on risk and return.

## Macquarie's risk culture is well established

While Macquarie's risk culture has been integral to the Company's *Risk Management Framework* since inception, it is continuously being strengthened. Primary responsibility for risk management in Macquarie, including risk culture, is at the business level.

The Board, assisted by the BRiC is responsible for:

- forming a view of Macquarie's risk culture, and the extent to which that culture supports Macquarie's ability to operate consistently within its risk appetite
- the identification of any desirable changes to evolve Macquarie's risk culture and for ensuring that Macquarie takes steps to address those changes.

Macquarie's long standing approach to risk culture – which is part of the risk management framework – assists the Board and management in meeting their responsibilities.

## Maintaining an appropriate risk culture

Macquarie's approach to risk culture is based on three main components:

### Setting behavioural expectations

The Board recognises the importance of, and is committed to, a sound risk culture throughout Macquarie. The Board is ultimately responsible for Macquarie's risk management framework and is responsible for the oversight of its operation by management. Senior Management oversees performance and continually evolves Macquarie's expectations regarding appropriate behaviours.

Staff are made aware that Macquarie's principles of Opportunity, Accountability and Integrity are expected to form the basis of all behaviours and actions. These behavioural expectations are actively promoted by Senior Management and cascaded through the organisation in a number of ways including:

- **individual accountability:** each person understands and meets their role and responsibilities; all staff are accountable to Macquarie's clients, community, shareholders and staff for their actions
- **policies, procedures and systems:** for every individual, compliance is fundamental
- **escalation:** each individual is obliged and encouraged to escalate concerns when they make a mistake or see something that may be a breach of Macquarie's *Code of conduct* or policy
- **fair dealing:** it is a fundamental responsibility for staff to deal honestly and fairly in their relationships with Macquarie's clients.



# Risk Management Report

## continued

### Leading and executing

Management implement behavioural expectations through:

- leadership actions and communication
- organisational governance
- incentives and consequence management
- organisational and individual capability.

### Monitoring, measuring and reporting

Macquarie monitors and measures its risk culture to gauge effectiveness while promoting continuous improvement. Key mechanisms include but are not limited to:

- policies and processes in relation to Board and management governance, which include reporting and escalation of issues
- processes to govern the identification, recording, management and reporting of incidents
- independent oversight and sign-off by RMG for material risk decisions
- intense scrutiny of material business activities and risk decisions at the business level by Senior Management and at the Group level led by BRIC
- personal observation and assessment by Board and Senior Management, including frequent interaction with staff, attendance at formal staff events, annual Board visits and Chairman visits
- established audit program including specialist risk mindset and behaviour audits focused on risk culture
- rigorous remuneration monitoring mechanisms.

Multiple regular reports relating to risk culture are provided to Senior Management and the Board. Reports incorporating behavioural issues are prepared by all Operating and Central Service Groups, RMG divisions, HR and Macquarie's Integrity Office.

### Risk management framework support

Multiple aspects of the risk management framework support Macquarie's risk culture, including:

- **The Board approved *Code of conduct* 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. The *Code of conduct* also 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.** Greater emphasis is placed across Macquarie on fostering long-term relationships with its 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 often exceed historical levels, they play a significant role in influencing and limiting positions, particularly for extreme loss events. For example, Macquarie applies limits to contingent losses from an instantaneous 40% gap move in stock prices. These limits effectively constrain position taking by divisions trading in products where the current risk appears low but potential risk exists in 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 and Central Service Groups. In its review of a new proposal, RMG provides an independent confirmation of the risk acceptance decision. RMG works closely with each deal team sharing the goal of making the transaction successful by requiring improvements to the transaction terms where applicable. Transferring knowledge to transaction teams, to enable the same risk management principles to be applied to future proposals from an early stage, is strongly emphasised
- **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 Company through retention of remuneration and equity participation. The principles behind Macquarie's current remuneration structure have been in place for many years.

### Consequence management

Effective consequence management is also a key aspect of Macquarie's risk management framework and risk culture. In addition to Macquarie's group-wide guiding principles for consequence management, Operating and Central Service Groups may apply specific guidelines or procedures. Actions undertaken can assist staff in building their skills and knowledge. Where appropriate, actions can also be a deterrent against further breaches by reinforcing proper standards of staff conduct.

Macquarie aims to apply consequences for non-compliance in a timely manner, as fairly and consistently as possible to ensure all Macquarie staff act with integrity. Staff are held accountable for the consequences of their actions in support of Macquarie's risk and compliance culture.

Decisions about consequences are made by Management supported by HR, RMG and any other stakeholder as required for the particular matter. For material breaches, the matter may be escalated to the CEO, Executive Committee or Board.

In determining the appropriate consequence for a breach by a staff member, relevant factors (both mitigating and aggravating) are considered. Potential consequences have included, but are not limited to:

- placing the staff member under increased supervision and/or monitoring including pre-vetting of work and increased sample testing of work
- issuing a verbal warning
- issuing a written warning (including a first and final written warning)
- dismissing the staff member (with or without notice)
- a financial consequence in respect of any discretionary element of remuneration
- a consequence that impacts performance rating or promotion.

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## Conduct risk management

Macquarie defines conduct risk as the risk of improper, unlawful, or unethical behaviour or action that may have a negative impact on Macquarie's clients or counterparties or the fair and effective operation of the markets in which Macquarie operates.

Conduct risk may arise inadvertently or deliberately in any of Macquarie's activities or businesses, both retail and wholesale.

### Management approach

Macquarie's approach to conduct risk management is integrated into how staff manage their responsibilities and conduct themselves in Macquarie's business every day. The existing risk management framework addresses conduct risk by:

- establishing and maintaining an effective risk culture that drives good conduct
- having in place necessary policies, controls, processes and reporting mechanisms, in particular, to manage compliance, legal, reputation and operational risks

Consistent with Macquarie's 'three lines of defence' approach to risk management, Operating and Central Service Groups are primarily responsible for ensuring that conduct risks are appropriately managed.

Macquarie has a number of controls and processes in place to identify and manage conduct risks, including:

- proactive assistance to businesses to identify, assess, mitigate and manage compliance obligations and relevant risks
- analysis of regulatory and business developments, risk incidents, audit and regulatory findings, and where necessary, assisting businesses with the definition and implementation of appropriate remediation actions
- review of specific transactions, new products and businesses, identifying and escalating potential conflicts of interest and advising on the application of laws, regulations and policies
- adoption of a risk-based approach to performing independent monitoring and surveillance activities in addition to the supervisory activities performed by Operating and Central Service Groups.

New and emerging conduct risks continue to be identified through the annual strategy and business planning process.

## Risk appetite management

### 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 the Group is willing to accept as outlined in the *Risk Appetite Statement (RAS)*.

Macquarie's risk culture supports its ability to operate within the Board-approved *RAS*. In addition, behavioural expectations encourage staff to comply with the processes, limits and policies that put the principles of the *RAS* into operation.

The *RAS* sets out the degree of risk that 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 principles of the *RAS* are implemented primarily through the following four mechanisms:

### *New product and business approval process*

All new businesses and significant changes to existing products or processes are subject to a rigorous and interactive approval process that adheres to the principles stated in the *RAS*. This results in constructive dialogue on risk matters between RMG and the relevant business.

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. All relevant risks (e.g. conduct, regulatory, compliance, reputation, credit, market, equity, operational, liquidity, legal, tax and insurance) are reviewed to ensure they are identified and addressed prior to implementation. These risks are also monitored on an ongoing basis. 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 of an 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 not only to capital but also to earnings so that in a prolonged, severe downturn Macquarie's earnings and surplus capital cover losses and market confidence in the Company is maintained.

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

These granular limits are set to allow businesses to achieve their near-term plans while promoting 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 operational requirements for individuals and business activities.

# Risk Management Report

## continued

Formalising practices and principles into policies assists in providing a framework for the consistent management of risks. It also promotes sharing of experience and expertise gained from managing risks in various business activities.

### **Communication and training**

The *RAS* is accessible to all staff and is referred to in the *Code of conduct*. In addition, the principles in the *RAS* are communicated to relevant staff through formal and informal training programs. These include regular communication of policies to key staff, training programs for specific policies and mandatory Director-level staff training on the risk management framework.

### **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. Accordingly, 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 (e.g. 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 and Central Service Groups. The Head of RMG, as Macquarie's CFO, 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. 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.

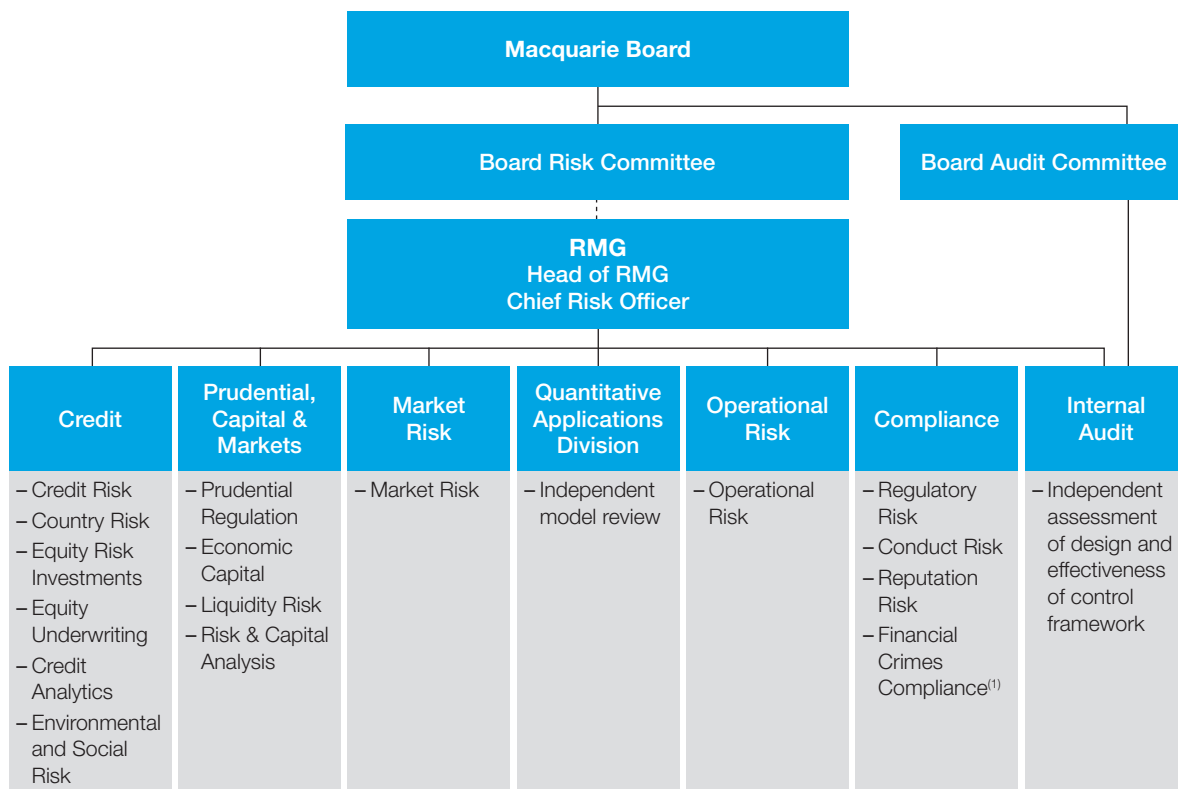
### **Frequent monitoring**

Centralised systems exist to allow RMG to monitor credit and market risks daily. RMG staff liaise closely with Operating and Central Service Groups.

## RMG structure and resourcing

Effective risk management is a function of both rigorous processes and the ability of experienced professionals to provide new perspectives on the risks they are considering. RMG attracts high calibre candidates. It recruits experienced individuals both from within Macquarie and externally. Conversely, Operating and Central Service Groups also source talent from RMG.

While RMG is structured into specialist teams as detailed below, it employs 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.



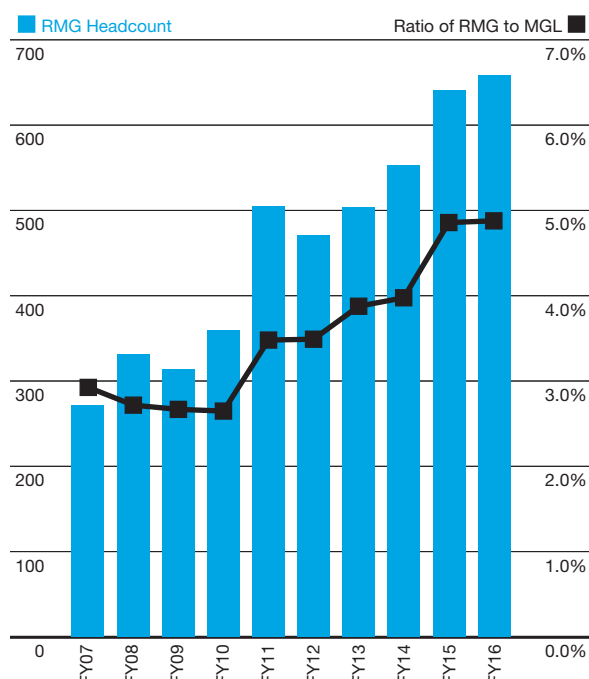
<sup>(1)</sup> Financial Crimes Compliance includes anti-money laundering, anti-bribery & corruption and sanctions.

# Risk Management Report

## continued

As at 31 March 2016 there were 658 staff in RMG, a 3% increase from FY2015. The ratio of RMG staff to total MGL staff remained at 5%, indicating that the change in RMG staffing was generally in line with the change in overall staffing at Macquarie.

### Ratio of RMG headcount to total Macquarie<sup>(1)</sup>



<sup>(1)</sup> 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 risks are managed in a controlled manner, approximately half of RMG's staff are based outside of Australia. All offices are subject to the same risk management controls and standards, supported by regular staff communication and visits to international offices by senior RMG staff.

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 to ensure the discharge of day-to-day compliance obligations at the business level. These staff report into their Regional Head of Compliance and ultimately into the Head of RMG Compliance
- Operating Group Heads appoint Business Operational Risk Managers (BORMs) to represent them on operational risk management matters. BORMs act as their delegate in ensuring that operational risk and associated management processes are addressed appropriately within their division.

### Risk management and monitoring

The risk management framework incorporates active management and monitoring of regulatory, compliance, reputation, credit, market, equity, operational, liquidity, legal, tax and insurance risks. It also includes risk culture and conduct risk management frameworks. It is designed to ensure policies and procedures are in place to manage the risks arising in all operations. The same risk management framework applies to all business activities, however, application varies in detail across different areas in Macquarie.

### Regulatory and compliance risk

Regulatory and compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation Macquarie may suffer as a result of its failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities (not including operational risk failures).

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

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. In line with the core risk management principle of risk ownership, Group Heads are responsible for identifying risks within their business activities and ensuring they are managed appropriately. RMG Compliance enables management to fulfill these supervisory responsibilities by providing credible challenge and establishing a robust and effective compliance framework. The Compliance function performs an advisory, training and monitoring role in respect of the compliance risks arising from Macquarie's business activities. This includes primary responsibility for managing relationships with Macquarie's regulators (excluding APRA which is managed through the RMG Prudential Capital and Markets Division).

RMG Compliance communicates and delivers on its priorities by defining and implementing a risk-based compliance program that sets out planned activities. These include the implementation and review of specific policies and procedures, compliance monitoring, surveillance and staff training.

### Monitoring and surveillance

RMG Compliance adopts a risk-based approach to performing independent monitoring and surveillance activities to supplement the supervisory activities performed by the Operating and Central Service Groups. This includes:

- testing compliance with relevant laws, regulations, rules, and the compliance framework
- surveillance of business transactions and communications, in order to identify patterns of improper behaviour or activities, and material or systemic weaknesses
- testing the effectiveness of supervisory procedures
- undertaking thematic compliance reviews as appropriate across the organisation



- escalating “red flags” that arise during monitoring and surveillance and supporting Management to facilitate prompt resolution of any deficiencies
- reporting results of monitoring and surveillance activity, as appropriate to the BGCC.

### Training and education

Compliance training and education involves a blend of electronic communications, online and face-to-face training delivered through scheduled updates and, on an as-needed basis, the implementation of policy changes and the communication of recent regulatory events. The responsibilities of RMG Compliance include:

- developing a training and education program to promote a compliance culture within Macquarie and to keep Macquarie staff apprised of compliance policies, regulatory requirements and developments
- administration of mandatory compliance training for all staff, and overseeing required continuing education requirements for licensed staff.

### Reputation risk

Reputation risk is the risk of loss arising from negative perceptions held by customers, shareholders, counterparties, regulators, market analysts, other relevant parties - including government bodies - and the broader community.

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 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 of conduct* outlines the ethical principles and the key policies that apply to all staff, the *Conduct Risk Management Framework* articulates Macquarie's definition of and expectations in relation to the management of conduct risk, and Regional Integrity Officers deal with potential issues of integrity.

Company policies, procedures and practices aim to minimise reputation risk. Regular reporting to the Group Risk and Compliance Committee (GRCC), Boards and Board Committees 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.

### 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 repaid or the loss incurred in replicating a trading contract with a new counterparty.

RMG Credit maintains a comprehensive and robust framework for the identification, analysis and monitoring of credit risks arising in 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 in Macquarie whose capacity to prudently exercise authority 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 in close collaboration 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 risks have been fully identified and the downside risk is properly understood and acceptable. This provides a balanced assessment of the worst case outcome against the expected rewards. Downside risk analysis includes stress testing and scenario analysis.

Macquarie primarily uses fundamental credit analysis rather than quantitative models to make credit risk acceptance decisions.

#### Macquarie Group ratings

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

# Risk Management Report

## continued

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, provides independent assurance of the effectiveness of credit processes and controls.

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 a default occurring.

### 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 that Macquarie is required 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 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, with adjustments 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.

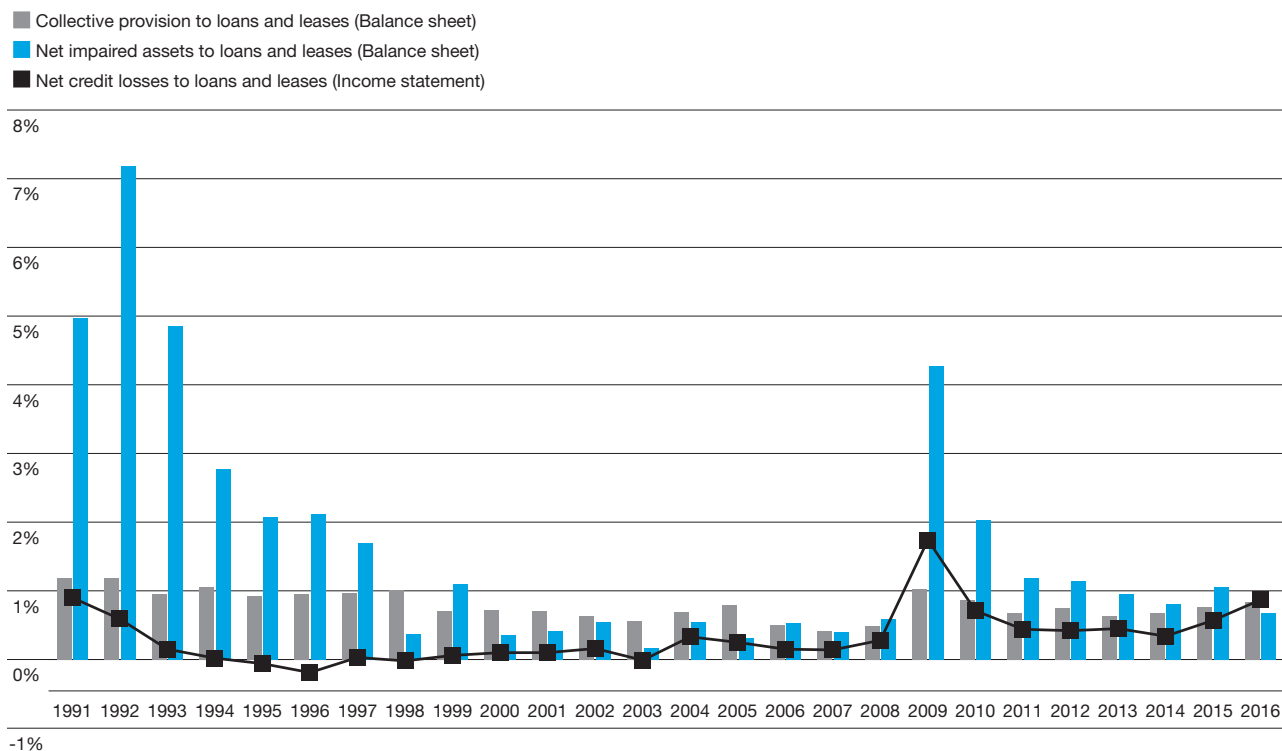
A review of the credit portfolio involving monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out and reported to the GRCC quarterly and Board semi-annually. Policies are in place to manage credit risk and avoid unacceptable concentrations to 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 evaluated collectively for impairment and are representative of losses that have been incurred but not yet identified.

## 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 to the financial statements in 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
- Refer to Note 12 to the financial statements in 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. Macquarie groups countries into categories based on the country's risk profile. Before taking an exposure to a high-risk country, Macquarie reviews the economic, political and operating environment to determine an acceptable level of exposure. Where appropriate, Macquarie implements measures to mitigate country risk.

# Risk Management Report

## continued

### Market risk

Market risk is the risk of adverse changes in the value of Macquarie's trading portfolios from 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 to constrain concentration risk and to avoid the accumulation of risky, illiquid positions

- **Value-at-Risk (VaR) limits:** statistical measure that determines the potential loss in trading value at both a business and aggregate level.

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

### Aggregate measures of market risk

Aggregate market risk is constrained by two risk measures, VaR and the Macro-Economic-Linkages (MEL) stress scenarios. The VaR model predicts the maximum likely loss in Macquarie's trading portfolio due to adverse movements in global markets over holding periods of one and ten days. The MEL scenario uses 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% level of confidence. Stress testing therefore 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 daily to Senior Management and regularly to the Board. 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% as well as additional shocks to foreign exchange, metals, interest rate, energy, agricultural commodity and credit markets. Macquarie's exposure to the 'Market Contagion' stress test scenario decreased compared with last year as trading businesses reduced exposures during a year of increased market volatility. The average exposure to the MEL stress test scenario represents less than 3% 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 regularly tested against daily profit and loss.

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 3,300 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, was relatively stable over the first half of the year, with the subsequent decline driven by reduced risk from commodity positions. VaR remains modest in comparison to capital and earnings representing less than 0.2% of total equity. The graph below shows the daily VaR and the six month average VaR as a percentage of total equity.

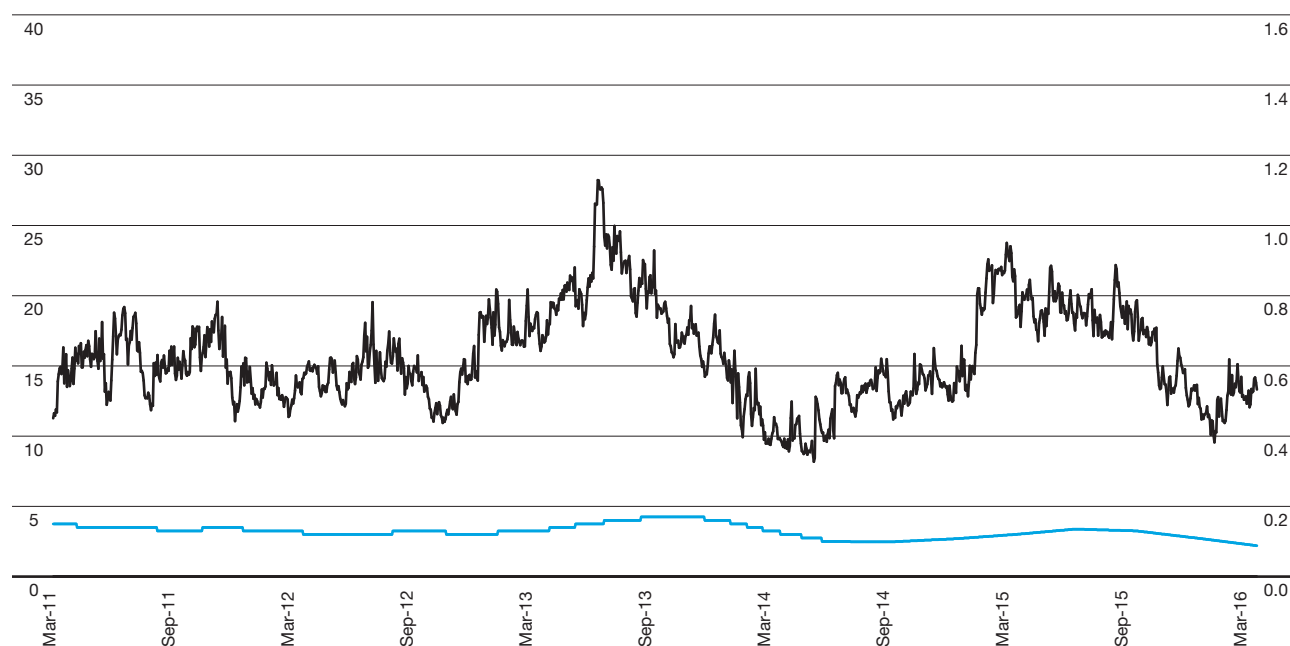
## Aggregate VaR

VaR (1-day 99 percent confidence level) —

Average VaR to total equity —

\$A million

%



## 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 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.

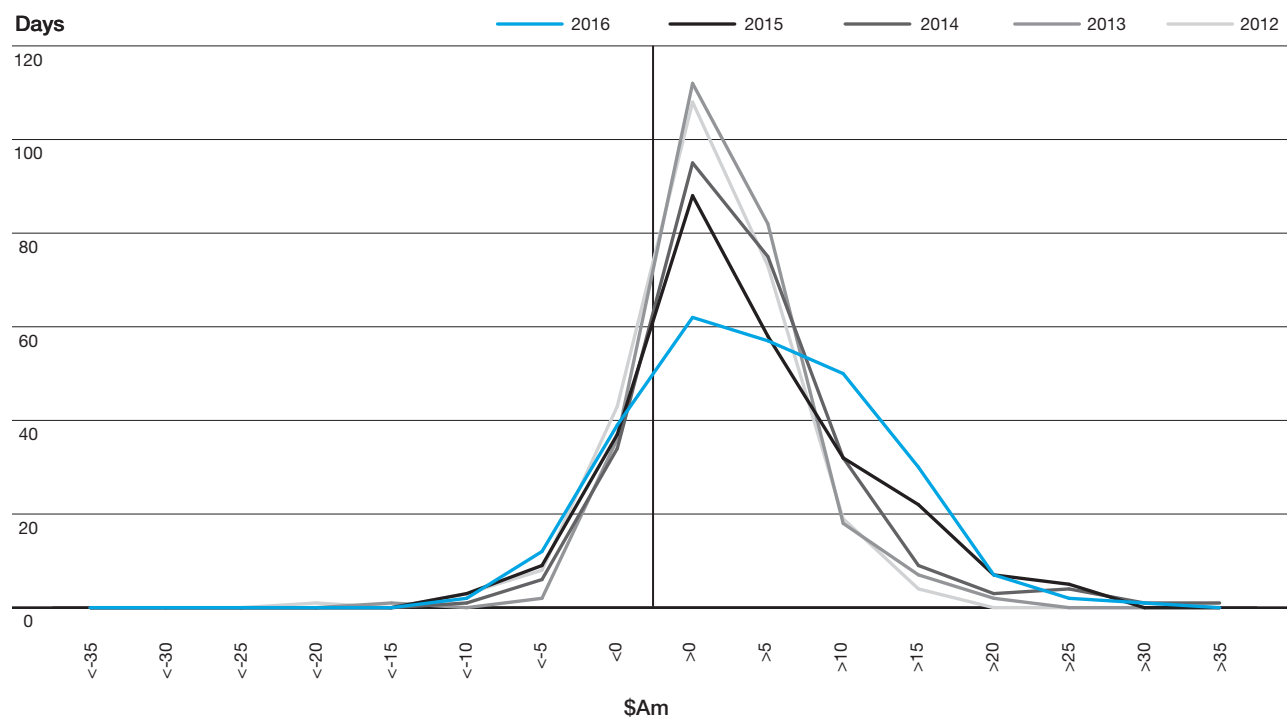
Macquarie's trading results over time have shown consistent profits and low volatility. This is evident in the graph below, and reflects the client-based nature of trading activities. In FY2016 Macquarie made a net trading profit on 209 out of 262 trading days (2015 results: 212 out of 261 trading days) and trading loss profiles were consistent with previous years. Larger trading profits were observed in 1H16 from improved trading opportunities driven by increased market volatility.



# Risk Management Report

## continued

### Daily Trading Profit and Loss



### 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.

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## Equity risk

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

These exposures include:

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

### 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 by reference to the Risk Appetite Test that is described further in the Capital Adequacy Assessment section below. When the Board sets the limit, it also considers the level of earnings, capital and market conditions. RMG reviews the limit semi-annually and reports the results of the review to the GRCC and the Board.

Additional Board or Executive Committee approved limits manage concentration risk in the equity portfolio. These include limits on:

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

### Transaction review and approval process

The Division executing the transaction is responsible for due diligence and risk analysis of each equity investment. For material deals, RMG undertakes 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, controls or systems or from external events.

Macquarie has established procedures and controls to manage credit, market, 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.

### Cyber Risk

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 staff 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:

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

Operating and Central Service Groups 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
- an operational risk self-assessment process to identify operational risks at the business level, evaluate controls and develop action plans to address deficiencies
- recording operational risk incidents in a centralised reporting system. Incidents are analysed to identify trends and establish lessons learnt on the effectiveness of controls
- allocation of operational risk capital to all Macquarie businesses as a tool to further encourage positive behaviour in Macquarie's day-to-day management of operational risk
- Macquarie-wide policies 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 holds operational risk capital to absorb potential losses arising from operational risk exposures.

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

- an annual scenario approach for modelling operational risk losses and to determine operational risk capital
- a process for allocating capital to businesses based on risk exposures.

Operational risk scenarios identify key risks that, while very low in probability may, if they occurred, result in very high impact losses. When 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 Operating and Central Service Groups. Scenario estimates are then modelled to determine the operational risk component of regulatory capital required to be held by Macquarie at the 99.9<sup>th</sup> percentile.

Over time, changes in operational risk capital reflect:

- new or significantly changed business activity or growth
- changes in the external environment such as new regulations or movements in the economic cycle.

### 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
<b>Macquarie Bank</b>	Internal model covering exposures of the Banking Group	Capital to cover risk-weighted assets and regulatory deductions, according to the APRA banking prudential standards
<b>Macquarie Group</b>	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 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 is recognised as a buffer against losses.

The ECAM quantifies the following types of risk:

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

The ECAM also covers insurance risk, underwriting risk, non-traded interest rate risk and the risk on assets held as part of business operations, for example, 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 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 continue operating.

(1) Under APRA Basel III rules.

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.

Operating Groups and Divisions estimate downturn forward earnings capacity under a three-year downturn scenario provided to them by RMG. RMG reviews the estimates for consistency with scenario assumptions and across groups.

Aggregate risk breaks 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 stress testing models, which translate scenario parameters (Gross Domestic Product, unemployment, interest rates etc.) into loss and transition rates. 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 use of this limit and allowing for growth in other risk types, the requirements of the Risk Appetite Test will be met.

## Liquidity risk

Liquidity risk is the risk that Macquarie is unable to meet its financial obligations as and when they fall due.

Liquidity management is performed centrally by Group Treasury.

### Governance and oversight

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 following page shows Macquarie's high-level funding structure.

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. The respective Boards approve the *MGL and MBL Liquidity Policies* after endorsement by ALCO and they receive liquidity reporting on a monthly basis. ALCO includes the CEO, MBL CEO, CFO, CRO, the Group Treasurer, Head of Balance Sheet Management and Group Heads.

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

# Risk Management Report

## continued

### Liquidity policy and risk appetite

Macquarie maintains two key liquidity policies, which together cover the consolidated Macquarie Group:

- The *MGL Liquidity Policy*: applies to all entities in the Group except MBL and its subsidiaries. Specifically, this includes MGL and the Non-Banking Group entities.
- The *MBL Liquidity Policy*: applies to MBL and its subsidiaries as a standalone entity within the Macquarie Group.

The principles of the *MGL and MBL Liquidity Policies* are consistent and together represent a consolidated view of the Macquarie conglomerate group. In some cases, certain entities within the Group may also be required to have a standalone liquidity policy. In these cases, the principles applied within the entity-specific liquidity policies are consistent with those applied in the broader Group-wide policy.

Macquarie establishes a liquidity risk appetite for both MGL and MBL, which is defined within each of the respective liquidity policies. The risk appetite is approved by each Board

and represents an articulation of the nature and level of liquidity risk that is acceptable in the context of achieving Macquarie's strategic objectives.

#### Macquarie Group Limited

MGL's liquidity 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.

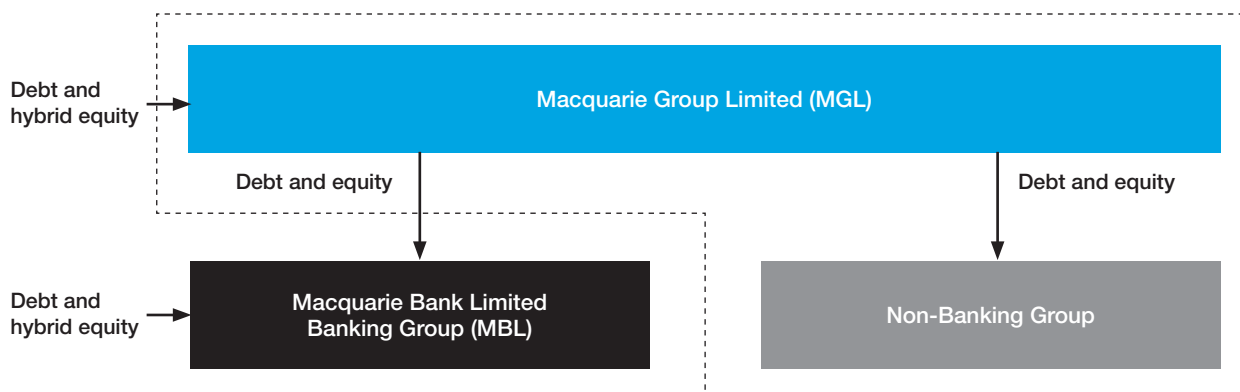
Reflecting the longer-term nature of the Non-Banking Group asset profile, MGL is funded predominantly by a mixture of capital and long-term wholesale funding.

#### Macquarie Bank Limited

MBL's liquidity risk appetite is set so that MBL can 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 an ADI and is funded mainly by capital, long-term liabilities and deposits.

### Macquarie Group high-level funding structure





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## Liquidity risk tolerance and principles

Macquarie's liquidity risk appetite is supported by a number of risk tolerances and principles applied to managing 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 the expected outflow under a 12 month stress scenario and meet minimum regulatory requirements
- cash and liquid assets held to cover 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 entities in the Macquarie Group 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.

## Liquidity Contingency Plan

Group Treasury maintains a *Liquidity Contingency Plan*, which outlines how a liquidity stress would be managed across the Macquarie Group. The *Liquidity Contingency Plan* defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the *Liquidity Contingency Plan* details:

- factors that may constitute a crisis
- the officer responsible for enacting the contingency management
- a committee of senior executives 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
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

The *Liquidity Contingency Plan* also incorporates a Retail Run Management Plan that outlines the Bank's processes and operational plans for managing a significant increase in customer withdrawals during a potential deposit 'run' on Macquarie.

In addition, Macquarie monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding invoking the *Liquidity Contingency Plan*.

The *Liquidity Contingency Plan* is subject to regular review (at least annually) by both Group Treasury and RMG, and is submitted to the Board for approval.

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

## Funding Strategy

Macquarie prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The *Funding Strategy* is reviewed by ALCO and approved by the respective Boards.

## Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. In addition to regulatory scenarios, Group Treasury models a number of additional liquidity scenarios covering both market-wide and Group-specific crises.

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

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and firm-specific crisis over a 12 month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

# Risk Management Report

## continued

### Liquid asset holdings

Group Treasury centrally 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. Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio.

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.

The portfolio also includes other very short dated, high-quality liquid assets such as A-1+ rated Australian residential mortgage backed securities.

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

### 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 rewarded at a level that is appropriate for the liquidity benefit provided by the funding.

### 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 is minimised or mitigated as far as is reasonably practicable. Responsibility for legal risk lies with Macquarie's Operating and Central Service Groups 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 the relevant Operating Group Head.

### 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 Taxation Division, a specialist Division within FMG undertakes tax risk management. 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 total taxation obligations by providing technical assistance and input regarding tax returns and other filing obligations. Individual tax specialists in the Taxation Division are assigned primary responsibility for key Divisions, technical issues and regions to ensure comprehensive coverage. 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 business activities and structures and confirming that Macquarie holds suitable external taxation opinions and support. The Taxation Division also 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 Committees as well as the BAC, as appropriate.

### Insurance risk

Insurance risk is the risk associated with the provision of life insurance policies. It includes lapse risk, claims risk, asset/liability mismatch risk and expense 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 due to higher than expected policy lapse rates, claim rates and expenses.

To ensure that the potential losses arising from the insurance business remain 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 on exposure against those limits.

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## 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 on 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<sup>(1)</sup> 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.*

# Macquarie Group Foundation Review

The Macquarie Group Foundation's pioneering approach to philanthropy has supported thousands of community organisations around the world since 1985, predominantly within the communities where Macquarie staff live and work.

During the year the Foundation continued to encourage staff to address community needs through the giving of their time, expertise and financial support.

A highlight of staff fundraising during this period was Macquarie's annual 'Foundation Week' in October which encourages and celebrates community engagement by staff. Together with the Foundation's support, which included a '2-for-1' matching incentive (where amounts of up to \$A5,000 for team fundraising were double matched), staff contributed more than \$A3 million to hundreds of not-for-profits. More than 215 fundraising and volunteering events were held across 40 offices with more than half of all staff participating.

This contribution was part of the \$A29.7 million<sup>(1)</sup> provided to 1,500 community organisations by staff and the Foundation globally over the year.

## Staff recognition

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

In addition, Macquarie's staff matching policy during the year provided up to \$A25,000 for individual donations or fundraising and up to \$A100,000 for team fundraising.

## Pro bono expertise

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

During the year Macquarie staff contributed more than 46,000 hours of voluntary community service including pro bono contributions and board positions. Staff also participated in structured volunteering programs in Sydney, London, Hong Kong and New York City, where they had the opportunity to develop leadership and project management skills while also enabling not-for-profits to leverage Macquarie staff expertise in meeting their objectives.

## Social innovation

As supporters of social innovation, the Foundation's approach to corporate philanthropy has helped to seed-fund several pioneering community organisations throughout its 30-year history. It has also provided capacity building and collaborative funding grants to not-for-profits, to help drive sustainable community benefits over the long-term.

In 2015, Macquarie's *Social Innovation Award*, which recognises, rewards and promotes new ideas that meet pressing community needs, provided for a special one-off increase to \$A300,000 (from \$A100,000) in recognition of the Foundation's 30th anniversary. The Award was granted to Hello Sunday Morning, a charity set up in 2010 to change Australians' relationship with alcohol.

Continuing Macquarie's focus on fostering innovation and collaboration within the community sector, during the year the Foundation opened the doors of its new social innovation hub in Sydney, known as Bulb, to eight not-for-profit and social purpose organisations. Its proximity to Macquarie's Sydney headquarters has enabled Macquarie staff to learn more about the tenants' work as well as facilitate skilled volunteering opportunities.

## Long-term partnerships

Many of the Foundation's grant partners, in addition to receiving a grant, benefit from fundraising and volunteer support from Macquarie staff, regular donations made through the Macquarie Giving platform and by having a Macquarie staff member serving on their board. This is an enduring feature of the Foundation that enables Macquarie to build deep and long-term relationships with innovative and well-run community organisations around the world. The nature of these relationships allows for certainty of funding within these not-for-profits and their ability to leverage support from other funders.

Examples include:

- **Social Ventures Australia (SVA):** The Foundation has supported SVA since 2004. Most recently, funding has been directed towards SVA's work developing the social impact bond market in Australia, liaising with both social service organisations and State and Federal governments on feasibility and modeling
- **The HOPE Program:** The Foundation has provided support to HOPE - which works with New Yorkers living in poverty to achieve self-sufficiency through employment and advancement - since 2010. It combines training, adult basic education, industry certifications, work wellness services, internships and job placement with long-term support
- **Streetwise Opera:** The partnership between the Foundation and Streetwise Opera began in 2008, leading to Macquarie becoming Streetwise's principal corporate supporter. Macquarie's support has enabled Streetwise to transform its position as an arts organisation, raising its profile, increasing audience reach, generating better opportunities for its homeless participants and creating innovative opera productions across England
- **Mother's Choice:** Mother's Choice in Hong Kong cares for children without families and girls facing crisis pregnancies. The Foundation has worked with the charity since 2013, including funding new technology infrastructure, providing pro bono IT and other business advice and granting a travel fellowship to the CEO of Mother's Choice to research best practice work outside of Hong Kong, in vulnerable children's care and development.

Further information regarding Macquarie staff community initiatives and organisations supported by the Foundation is available at [macquarie.com/community](http://macquarie.com/community)

- <sup>(1)</sup> 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 not-for-profit board for more than 12 months; and Foundation grants to community organisations.

# Directors' Report

## for the financial year ended 31 March 2016

In accordance with a resolution of the Directors of Macquarie Group Limited, the Directors submit the income statements and the cash flow statements for the year ended 31 March 2016 and the balance sheets as at 31 March 2016 of the Consolidated Entity and the Company 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

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

#### Executive Voting Director

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

The Directors listed above each held office as a Director of Macquarie throughout the financial year ended 31 March 2016. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Mr H Kevin McCann AM retired as Chairman and an Independent Voting Director of MGL on 31 March 2016.

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 2016 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.

<sup>(1)</sup> Mr Warne replaced Mr McCann as Chairman of MGL effective on Mr McCann's retirement.

### Result

The financial report for the financial years ended 31 March 2016 and 31 March 2015, 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 2016 was \$A2,063 million (2015: \$A1,604 million).

### Dividends and Distributions

Subsequent to year end, the Directors have announced a final ordinary dividend of \$A2.40 per share, 40% franked based on tax paid at 30% (\$A815 million in aggregate). The final ordinary dividend is payable on 4 July 2016.

On 16 December 2015, the Company paid an interim ordinary dividend of \$A1.60 per share 40% franked (\$A536 million in aggregate) for the financial year ended 31 March 2016.

On 2 July 2015, the Company paid a final dividend of \$A2.00 per share 40% franked (\$A660 million in aggregate) for the financial year ended 31 March 2015.

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 Overview and the Operating and Financial Review sections on pages 6 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
- 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' Report

## for the financial year ended 31 March 2016

### continued

#### Directors' equity participation

As at 6 May 2016, 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 <sup>(1)</sup>	PSUs held in the MEREP <sup>(1)</sup>
N.W. Moore	1,849,118	625,050	272,828
G.R. Banks	4,916	–	–
G.M. Cairns	12,734	–	–
M.J. Coleman	7,199	–	–
P.A. Cross	7,636	–	–
D. J. Grady	7,578	–	–
M.J. Hawker	7,335	–	–
N.M. Wakefield Evans	4,177	–	–
P.H. Warne	14,933	–	–

<sup>(1)</sup> 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 32 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 6 May 2016 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
M.J. Coleman	Macquarie Group Capital Notes 2 (MCN2)	2,000
D.J. Grady	Macquarie Group Capital Notes (MCN)	400
	MCN2	100
M.J. Hawker	MCN2	500

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## Meeting attendance

### Directors' meetings

#### Board 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:

	Monthly Board meetings (12)		Special Board meetings (2)	
	Eligible to attend as a member	Attended	Eligible to attend as a member	Attended
H.K. McCann	12	12	2	2
N.W. Moore	12	12	2	2
G.R. Banks	12	12	2	2
G.M. Cairns	12	10	2	2
M.J. Coleman	12	12	2	2
P.A. Cross	12	12	2	1
D.J. Grady	12	12	2	1
M.J. Hawker	12	12	2	1
N.M. Wakefield Evans	12	12	2	2
P.H. Warne	12	12	2	2

# Directors' Report

## for the financial year ended 31 March 2016

### continued

#### Board Committee meetings

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 Audit Committee meetings (7)		Board Governance and Compliance Committee meetings (6)		Board Nominating Committee meetings (6)		Board Remuneration Committee meetings (8)		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	–	–	–	–	6	6	8	7	6	6
G.R. Banks <sup>(1)</sup>	–	–	2	2	6	6	8	8	6	6
G.M. Cairns	–	–	–	–	6	4	8	8	6	5
M.J. Coleman	7	7	6	6	6	6	–	–	6	6
P.A. Cross	7	7	–	–	6	6	–	–	6	6
D.J. Grady	–	–	6	6	6	6	8	8	6	6
M.J. Hawker <sup>(2)</sup>	7	7	4	4	6	6	2	2	6	6
N.M. Wakefield Evans <sup>(3)</sup>	7	7	6	6	6	6	–	–	6	6
P.H. Warne	–	–	–	–	6	5	8	8	6	6

<sup>(1)</sup> Mr Banks joined the BGCC on 1 January 2016.

<sup>(2)</sup> Mr Hawker joined the BRC, and ceased to be a member of the BGCC, on 1 January 2016.

<sup>(3)</sup> Ms Wakefield Evans was appointed Chairman of the BGCC on 1 January 2016.

There was one Board sub-committee convened during the period, with two meetings held. Both meetings were attended by all the eligible sub-committee members, being Mr McCann, Mr Moore, Mr Coleman and the CFO, Mr Upfold.

All Board members are sent Board Committee meeting agendas and may attend any Board Committee meeting.

The Chairman of the Board and the CEO attend Board Committee meetings by invitation as a matter of course.

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## 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 2016 total \$A9.2 million. Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 41 - Audit and other services provided by PwC 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 or creates a mutual or conflicting interest between the auditor and the Consolidated Entity. The policy also provides that significant permissible non-audit assignments awarded to the external auditor must be approved in advance by the BAC or the BAC Chairman, as appropriate

# Directors' Report

## for the financial year ended 31 March 2016

### continued

- 
- 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.

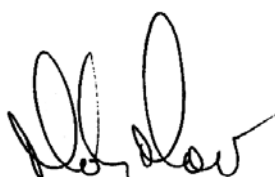
#### Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance that 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 2016.



**Peter Warne**

Independent Director and Chairman



**Nicholas Moore**

Managing Director and  
Chief Executive Officer

Sydney  
6 May 2016



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# Directors' Report Schedule 1 – Directors' experience and special responsibilities for the financial year ended 31 March 2016

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## Peter H Warne, BA (Macquarie), FAICD (age 60)

*Independent Chairman since April 2016*

*Chairman – Board Remuneration Committee (until 7 May 2016)*

*Chairman – Board Nominating Committee*

*Member – Board Risk Committee*

Peter Warne joined the Board of Macquarie Group as an Independent Voting Director in August 2007. Mr Warne was appointed as an Independent Voting Director of Macquarie Bank in July 2007 and continues to hold this position. Mr Warne became Chairman of the Macquarie Group and Macquarie Bank Boards in April 2016.

### **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 and 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
- Patron, Macquarie University Foundation

Mr Warne is a resident of New South Wales.

## Nicholas W Moore, BCom LLB (UNSW), FCA (age 57)

*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
- Chairman, Sydney Opera House Trust
- Director, Centre for Independent Studies
- Chairman, UNSW Business School Advisory Council

Mr Moore is a resident of New South Wales.

# Directors' Report Schedule 1 – Directors' experience and special responsibilities for the financial year ended 31 March 2016 continued

## Gary R Banks AO, BEc (Hons) (Monash), MEd (ANU) (age 66)

*Member – Board Governance and Compliance Committee*  
*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 Voting 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
- Chairman, Regulatory Policy Committee of the OECD
- Member, Advisory Board of the Melbourne Institute, University of Melbourne
- Adjunct Professor, Australian National University
- Professorial Fellow, Melbourne University

Mr Banks is a resident of Victoria.

## Gordon M Cairns, MA (Hons) (Edin) (age 65)

*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 Voting 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, Woolworths Limited (since September 2015)
- 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**

- Director, Quick Service Restaurant Group Pty Ltd
- Director, World Education Australia

Mr Cairns is a resident of New South Wales.

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**Michael J Coleman, MCom (UNSW), FCA, FCPA, FAICD (age 65)**

*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 Voting 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.

**Other current directorships/appointments**

- Member, Audit Committee of the Reserve Bank of Australia
- Chairman, Reporting Committee of the Australian Institute of Company Directors (AICD)
- Member, National Board and NSW Council, AICD
- 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.

**Patricia A Cross, BSc (Hons) (Georgetown), FAICD (age 56)**

*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 Voting 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
- Ambassador, Australian Indigenous Education Foundation

Mrs Cross is a resident of Victoria.

# Directors' Report Schedule 1 – Directors' experience and special responsibilities for the financial year ended 31 March 2016 continued

## Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD (age 67)

*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 Voting Director in May 2011.

### **Experience**

Diane Grady has extensive international experience in a variety of industries having served as a full time independent director of public companies and not-for-profit boards since 1994. Previous directorships include Australian Stationery Industries, 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.

Ms Grady was a partner at McKinsey & Company where she consulted for over 15 years to clients on strategic 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.

### **Listed company directorships**

*(held at any time in the last three years)*

- Director, Spotless Group Holdings Limited (since March 2014)

### **Other current directorships/appointments**

- Member, McKinsey Advisory Council
- Chair, Ascham School
- Chair, The Hunger Project Australia
- Member, NSW Innovation and Productivity Council
- Member, Centre for Ethical Leadership
- Member, Heads Over Heels Advisory Council
- Member, NFP Chairs Forum

Ms Grady is a resident of New South Wales.

## Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin, FAIM, FloD (age 56)

*Member – Board Audit Committee*  
*Member – Board Nominating Committee*  
*Member – Board Remuneration Committee (Chairman from 8 May 2016)*  
*Member – Board Risk Committee*

Michael Hawker joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting 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, the George Institute for Global Health
- Director, the George Institute for Global Health (UK)
- Director, Rugby World Cup Limited

Mr Hawker is a resident of New South Wales.

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**Nicola M Wakefield Evans, BJuris/BLaw (UNSW), MAICD (age 55)**

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

Nicola Wakefield Evans joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting 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
- Member, Takeovers Panel

Ms Wakefield Evans 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 22 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 2016

<b>Executive summary .....</b>	<b>65</b>
<b>Macquarie's remuneration framework .....</b>	<b>67</b>
<b>Macquarie's remuneration structure .....</b>	<b>69</b>
Profit share retention levels .....	69
Investment of retained profit share .....	69
Vesting and release of profit share .....	70
Forfeiture of retained profit share (Malus) .....	70
Early vesting and release of retained profit share .....	71
Performance Share Units (PSUs) .....	72
Other features of Macquarie's remuneration structure .....	74
<b>Alignment of remuneration outcomes to results .....</b>	<b>75</b>
<b>Macquarie's performance relative to peers .....</b>	<b>77</b>
Net profit after tax .....	77
Return on equity .....	78
Total shareholder return .....	79
Compensation expense to income ratio .....	80
Staff retention .....	81
<b>Remuneration governance .....</b>	<b>82</b>
Strong Board oversight .....	82
Independent remuneration review .....	83
<b>Non-Executive Director remuneration .....</b>	<b>84</b>
Non-Executive Director remuneration policy .....	84
Board and Committee fees .....	84
Minimum shareholding requirement for Non-Executive Directors .....	85
<b>Appendices: Key Management Personnel (KMP) disclosures .....</b>	<b>86</b>
<b>Appendix 1: KMP .....</b>	<b>86</b>
<b>Appendix 2: Statutory remuneration disclosures .....</b>	<b>88</b>
<b>Appendix 3: Share disclosures .....</b>	<b>94</b>
<b>Appendix 4: Other KMP disclosures .....</b>	<b>100</b>

## 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 and reinforcing the *Code of conduct* and the long-held foundations of Macquarie's risk culture, the principles of *What We Stand For* – Opportunity, Accountability and Integrity. In undertaking this assessment, the Board and the BRC have considered factors including:

- the degree of alignment between staff and shareholders
- Macquarie's performance during the year and the performance of each business
- shareholder returns
- the need to balance short-term and long-term incentives
- feedback from shareholders
- the risk and conduct culture of Macquarie<sup>(1)</sup>
- the employment environment
- the evolving regulatory landscape
- market developments.

The Board believes that Macquarie's longstanding remuneration approach continues to create a strong alignment of staff and shareholders' interests while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*.

The remuneration framework seeks to attract, motivate and retain exceptional people, while aligning their interests with those of shareholders. It comprises 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.

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 2016, fixed remuneration for Macquarie's 13 Executive Committee members comprised approximately 8% of total remuneration. The balance remains at risk and is explicitly linked to performance.

While performance-based remuneration in the form of profit share is aligned with company performance, Macquarie's approach to performance-based remuneration is driven by a detailed assessment at the business group and individual level. Each business group considers profit share allocations to teams and individuals in their business based on performance, market developments and the employment environment with reference to the company-wide profit share pool. The company-wide profit share pool is determined annually with reference to a proportion of Macquarie's after tax profits and its earnings over and above the estimated cost of capital.

<sup>(1)</sup> Business conduct and ethics are discussed further in the Corporate Governance Summary in this Annual Report, and in the Corporate Governance Statement on the Macquarie website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance)

The Non-Executive Directors (NEDs) of the Board have the discretion to adjust the profit share pool up or down to reflect internal and external factors if deemed in the interests of Macquarie and shareholders. Such factors may include performance, risk and compliance considerations, the employment environment and staff retention risk. As has occurred in previous years, not all of the profit share pool has been paid to employees in the current year.

The criteria used to assess each individual's performance vary depending on their role and include:

- financial performance
- risk management and compliance
- business leadership
- people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

For staff whose primary role is risk and financial control, including the CRO and the CFO, the Board also seeks to ensure that their remuneration 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 (e.g. the retention rate for the CEO's profit share allocation is 70%, retained for up to seven years). Including PSUs, the effective deferral rate for the CEO is 74% for this year
- delivered in equity
- subject to forfeiture in certain circumstances.

Performance-based remuneration in the form of PSUs provide an additional incentive to Executive Committee members to drive overall company-wide performance over the longer-term over and above their business group responsibilities. They 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 that can be satisfied by the delivery of equity under the current remuneration arrangements. This 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.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

### continued

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. While NPAT has increased compared with FY2015, total compensation does not reflect the same rate of growth, evidencing Macquarie's commitment to delivering appropriate levels of remuneration.

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 (Executive KMP being the members of Macquarie's Executive Committee) is aligned with performance. Remuneration outcomes for Executive KMP varied according to their individual performance and the performance of their business. The analysis below shows that whilst CEO remuneration has increased compared to FY2015, it has not increased to the same extent as NPAT. Total remuneration for Comparable Executive KMP<sup>(1)</sup>, including the CEO, has remained relatively flat compared to FY2015.

#### Comparison of performance measures and executive remuneration measures: FY2015 – FY2016

		2016	2015	Increase/ (Decrease)%
<b>Performance measures</b>				
NPAT	\$Am	2,063	1,604	29
Basic EPS	Cents per share	619.2	502.3	23
Ordinary dividends	Cents per share	400.0	330.0	21
Return on equity	Percent	14.7	14.0	
Annual TSR <sup>(2)</sup>	Percent	(9.9)	38.9	
<b>Executive remuneration measures</b>				
Total Compensation Expense	\$Am	3,957	3,891	2
Compensation Expense to Income ratio	Percent	39.0	42.0	
Average staff headcount		13,902	14,086	(1)
Actual staff headcount 31 March		14,372	14,085	2
Statutory Remuneration – CEO	\$Am	18.16	16.50	10
Statutory Remuneration – Comparable KMP	\$Am	91.28	90.82	0.5

(1) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2016 and FY2015.

(2) TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.

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 Board on key decisions. The Board (excluding the CEO) approves key remuneration decisions including the outcomes for all Executive KMP 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 organisations and reflect the time commitment and responsibilities involved within the shareholder approved aggregate limit.

In summary, Macquarie's longstanding approach to remuneration supports the overarching objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*.

## 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 and reinforcing the *Code of conduct* and *What We Stand For*. 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:

- remunerating high performing staff appropriately, relative to global peers, so they are attracted to and stay with Macquarie
- emphasising performance-based remuneration with an appropriate balance between short-term and long-term incentives having regard to risk
- linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital
- ensuring remuneration is structured to drive behaviours which reflect Macquarie's culture and promote 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.

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

### Overall remuneration objectives and principles



### Risk considerations

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. Performance-based remuneration reflects an individual's performance, which includes an assessment of a range of factors including risk management and compliance as well as behavioural measures to promote good conduct and commitment to the *Code of conduct* and *What We Stand For*.

To assist the BRC:

- the CFO confirms to the BRC that the forecast profit share pool does not result in elimination of capital surpluses
- the CRO provides an independent annual report to the BRC detailing any material breaches of the risk management framework, losses and impairments, the residual risks associated with large transactions concluded during the current financial year, return on economic capital by business and the relationship between profitability and risk
- the Global Head of HR discusses the CRO's report with the Group Heads to ensure any matters listed in the report are appropriately reflected in remuneration outcomes for relevant staff. HR subsequently provides a report to the BRC detailing how this has been achieved
- Macquarie operates a robust consequence management process whereby incidents, breaches of policy or regulation or conduct issues are managed. The Global Head of HR reports to the BRC on the outcomes from the consequence management process and confirms that these matters have been considered in determining remuneration and promotion outcomes where appropriate.

The BRC uses this information when considering the remuneration allocated to businesses and individuals.

Macquarie's remuneration framework works as an integrated whole. It comprises fixed remuneration, a profit share scheme and, for the Group's most senior executives, the Executive Committee, 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.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

continued

Fixed remuneration	<b>Determine fixed remuneration</b>	<b>Fixed remuneration</b> <ul style="list-style-type: none"> <li>– modest compared with similar roles in other organisations but sufficient to avoid inappropriate risk-taking</li> <li>– compared with profit share, generally higher for risk and financial control staff than for front office staff</li> <li>– reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements</li> <li>– no fixed remuneration increases proposed for Executive Committee members for FY2017.</li> </ul>
Performance-based remuneration	<b>Company-wide</b> <ul style="list-style-type: none"> <li>– Profit share</li> <li>– PSUs</li> </ul>	<b>Profit share pool</b> <ul style="list-style-type: none"> <li>– determined by reference to a proportion of Macquarie's after tax profits and its earnings over and above the estimated cost of capital</li> <li>– potential for Non-Executive Directors (NEDs) to exercise discretion to adjust the size of the pool up or down</li> <li>– PSU pool reflects Macquarie's overall performance.</li> </ul>
	<b>Determine awards</b> <ul style="list-style-type: none"> <li>– Profit share</li> <li>– PSUs</li> </ul>	<b>Businesses and individuals</b> <ul style="list-style-type: none"> <li>– determined in the context of the overall company-wide pool</li> <li>– considers each business' relative contribution to profits (not revenue) taking into account factors including capital usage, risk management and compliance and competitor dynamics</li> <li>– individual awards are based on performance. Performance criteria vary depending on an individual's role including: <ul style="list-style-type: none"> <li>– financial performance</li> <li>– risk management and compliance</li> <li>– business leadership</li> <li>– people leadership and professional conduct consistent with the <i>Code of conduct</i> and <i>What We Stand For</i>.</li> </ul> </li> <li>– PSUs are only awarded to members of the Executive Committee.</li> </ul> <b>Risk and financial control groups and other support groups</b> <ul style="list-style-type: none"> <li>– based on the quality and integrity of control functions and the quality of business support services</li> <li>– not determined solely with reference to profitability.</li> </ul>
	<b>Structure and deliver performance-based remuneration</b>	<ul style="list-style-type: none"> <li>– create shareholder alignment by adopting an approach where a significant portion of performance-based remuneration is: <ul style="list-style-type: none"> <li>– retained and deferred over a long period</li> <li>– delivered in equity</li> <li>– 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.</li> </ul> </li> <li>– apply Malus subject to conditions and the exercise of discretion by the Board consistent with employment legislation</li> <li>– employ return on ordinary equity (ROE) and earnings per share (EPS) as PSU vesting hurdles.</li> </ul>

## 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 and professional conduct. 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

Macquarie retains a percentage of each Executive Directors' annual gross profit share allocation (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% for Executive Directors.

#### Standard retention rates by role

Role	%
CEO	70
CEO Macquarie Bank	50
Other Executive Committee members	50 – 70
Designated Executive Directors <sup>(1)</sup>	50 – 60
Other Executive Directors	40 – 60
Staff other than Executive Directors	25 – 60 <sup>(2)</sup>

(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<sup>(3)</sup> and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan<sup>(4)</sup>. 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 – 20	80 – 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 32 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.



# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

### continued

#### Vesting and release of profit share

Whilst employed, 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 current Malus provisions provide the Board or its delegate with the ability to 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, 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
  - a significant unexpected financial loss, impairment charge, cost or provision
- 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 (EU Material Risk Takers, previously known as 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 where a Malus Event has occurred, 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.

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## Early vesting and release of retained profit share

An Executive Director's unvested retained profit share is only paid out on termination of employment in the case of death, serious incapacitation, 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).

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 such discretion has been exercised and retained profit share released for nine executives.

### ***Conditions of early release of retained profit share to departing Executive Directors***

In addition to the Malus provisions set out on page 70, 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 during or after their employment 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.

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. In other circumstances, 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
<b>Time post departure</b>	Six months	Six months – one year	One year – two years
<b>Unvested retained profit share released</b>	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
<b>Subject to</b>	No Malus Event or Post Employment Event	No Malus Event No Post Employment Event during First Period <b>and</b> no Post Employment Event (a) in Second Period	No Malus Event No Post Employment Event during First Period <b>and</b> no Post Employment Event (a) in Second Period

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

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

### continued

#### Performance Share Units (PSUs)

Executive Committee members are the only group of staff eligible to receive PSUs which are subject to forward-looking performance hurdles and are determined with reference to Macquarie as a whole. As such, they provide an additional incentive to Executive Committee members to drive overall company-wide performance over the longer-term over and above their business group responsibilities. PSU awards are a meaningful incentive but are generally not the major element of an Executive Committee member's total remuneration.

Since their introduction, PSUs have been structured as DSUs<sup>(1)</sup> 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:

<b>Determination</b>	<ul style="list-style-type: none"> <li>– The Board approves the value of PSUs to be allocated to Executive Committee members each year</li> <li>– The aggregate value of PSUs to be allocated is determined with reference to profits over recent years.</li> </ul>
<b>Allocation</b>	<ul style="list-style-type: none"> <li>– The allocation to individuals<sup>(2)</sup> is based on: <ul style="list-style-type: none"> <li>– role scope and complexity</li> <li>– financial and non-financial performance assessment against a range of factors including financial results, risk management and compliance, business leadership and people leadership</li> <li>– upholding the <i>Code of conduct</i> and <i>What We Stand For</i>.</li> </ul> </li> </ul>
<b>Vesting</b>	<ul style="list-style-type: none"> <li>– 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 73 to 74)</li> <li>– Grants made prior to 2012 vested in three equal tranches after two, three and four years.</li> </ul>
<b>Upon leaving Macquarie</b>	<p>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.</p>

<sup>(1)</sup> A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 32 to the financial statements in the Financial Report.

<sup>(2)</sup> The allocation of PSUs to the CEO, who is an Executive Voting Director, is subject to shareholder approval.

### 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 FY2016.

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

	EPS CAGR Hurdle	ROE Hurdle
<b>Application to PSU awards</b>	50%	50%
<b>Performance measure</b>	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years).	Relative average annual ROE over the vesting period (three to four years) compared with a reference group of global peers <sup>(1)</sup> .
<b>Hurdle</b>	<p>Sliding scale applies:</p> <ul style="list-style-type: none"> <li>– 50% becoming exercisable at EPS CAGR of 7.5%</li> <li>– 100% at EPS CAGR of 12%.</li> </ul> <p>For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.</p> <p>For awards made prior to 2013, the EPS CAGR hurdle range was 9% to 13%.</p>	<p>Sliding scale applies:</p> <ul style="list-style-type: none"> <li>– 50% becoming exercisable above the 50<sup>th</sup> percentile</li> <li>– 100% at the 75<sup>th</sup> percentile.</li> </ul> <p>For example, if ROE achievement was at the 60<sup>th</sup> percentile, 70% of the relevant awards would become exercisable.</p>
<b>Rationale for hurdles</b>	<ul style="list-style-type: none"> <li>– 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</li> <li>– 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</li> <li>– ROE and EPS can be substantiated using information that is disclosed in audited financial statements</li> <li>– 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</li> <li>– the approach is consistent with that advocated by APRA in not using TSR as a measure</li> <li>– 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.</li> </ul> <p>Use of an international peer group recognises the extent of Macquarie's internationalisation. At 31 March 2016 approximately 68% of Macquarie's income and approximately 54% of Macquarie's staff were offshore.</p>	

<sup>(1)</sup> 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).

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

continued

### 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 that vested in July 2015 comprised the third tranche of those granted in 2011 and the first tranche of those granted in 2012. As the performance hurdles under each tranche were not met in full, not all of the awards became exercisable. As a result:

PSU Tranche	EPS CAGR Hurdle			ROE Hurdle		
	Macquarie result (for vesting period)	Hurdle	Outcome	Macquarie result (for vesting period)	Hurdle	Outcome
2011 Tranche 3	15.5%	9%–13%	100% exercisable	8.8%	– 50% above the 50 <sup>th</sup> percentile <sup>(1)</sup> – 100% at the 75 <sup>th</sup> percentile <sup>(1)</sup>	56% exercisable
2012 Tranche 1	33.7%	9%–13%	100% exercisable	9.7%	– 50% above the 50 <sup>th</sup> percentile <sup>(2)</sup> – 100% at the 75 <sup>th</sup> percentile <sup>(2)</sup>	72% exercisable

<sup>(1)</sup> Peer group ROE at 50<sup>th</sup> percentile (2.69%) and peer group ROE at 75<sup>th</sup> percentile 26.32%

<sup>(2)</sup> Peer group ROE at 50<sup>th</sup> percentile (2.99%) and peer group ROE at 75<sup>th</sup> percentile 17.86%

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 Australian dollar 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:

<b>Length of contract</b>	Permanent open-ended
<b>Remuneration review period</b>	1 April to 31 March annually
<b>Profit share participation</b>	Executive Committee members are eligible to be considered for a profit share allocation that ensures that a large part of their remuneration is 'at risk'. Refer to pages 69 to 71 for details.
<b>PSU participation</b>	Executive Committee members are eligible to receive PSUs. Refer to pages 72 to 74 for details.
<b>Termination of employment</b>	Requires no more than four weeks' notice <sup>(3)</sup> by Macquarie or the Executive Committee member.

<sup>(3)</sup> 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.

## 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 for shareholders while appropriately managing remuneration for staff. While NPAT has increased compared with FY2015, total compensation does not reflect the same rate of growth, reflecting Macquarie's commitment to delivering appropriate levels of remuneration.

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. Remuneration outcomes for Executive KMP varied according to their individual performance and the performance of their business. The analysis below shows that whilst CEO remuneration has increased compared to FY2015, it has not increased to the same extent as NPAT. Total remuneration for Comparable Executive KMP<sup>(1)</sup>, including the CEO, has remained relatively flat compared to FY2015.

### Comparison of performance measures and executive remuneration measures: FY2015 – FY2016

		2016	2015	Increase/ (Decrease)%
<b>Performance measures</b>				
NPAT	\$Am	2,063	1,604	29
Basic EPS	Cents per share	619.2	502.3	23
Ordinary dividends	Cents per share	400.0	330.0	21
Return on equity	Percent	14.7	14.0	
Annual TSR <sup>(2)</sup>	Percent	(9.9)	38.9	
<b>Executive remuneration measures</b>				
Total Compensation Expense	\$Am	3,957	3,891	2
Compensation Expense to Income ratio	Percent	39.0	42.0	
Average staff headcount		13,902	14,086	(1)
Actual staff headcount 31 March		14,372	14,085	2
Statutory Remuneration – CEO	\$Am	18.16	16.50	10
Statutory Remuneration – Comparable KMP	\$Am	91.28	90.82	0.5

<sup>(1)</sup> Comparable KMP are Executive KMP who were members of the Executive Committee for the full year in both FY2016 and FY2015.

<sup>(2)</sup> TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.



# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

continued

### Performance over past 10 years: FY2007–2016

Years ended 31 March	FY16	FY15	FY14	FY13	FY12	FY11	FY10	FY09	FY08	FY07
<b>Income statement</b>										
NPAT attributable to ordinary owners (\$A million)	2,063	1,604	1,265	851	730	956	1,050	871	1,803	1,463
Basic EPS (cents per share)	619.2	502.3	383.6	251.2	210.1	282.5	320.2	309.6	670.6	591.6
<b>ROE</b>										
Return on average ordinary shareholders' funds (% p.a.)	14.7	14.0	11.1	7.8	6.8	8.8	10.1	9.9	23.7	28.1
<b>Total shareholder returns (TSR)</b>										
Dividend – Interim and Final (cents per share)	400	330	260	200	140	186	186	185	345	315
Dividend – Special (cents per share)	–	–	116 <sup>(1)</sup>	–	–	–	–	–	–	–
Share price at 31 Mar (\$A)	66.1	76.7	57.9	37.2	29.1	36.6	47.3	27.1	52.8	82.8
Annual TSR (%)	(9.9)	38.9	66.0	34.4	(15.9)	(18.9)	79.8	(44.0)	(33.6)	32.5
10 Year TSR (%)	68.5									

<sup>(1)</sup> 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.

## 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 CAGR over the short and long-term (base currency and \$US)
- ROE over the short and long-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 that 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 exceeds all but two peers over a ten year period in both base currency and \$US and is in the mid range of peers over a one year period in base currency.

#### Peer relative growth in NPAT: FY2006-2016<sup>(1)</sup>

	1 year CAGR Base Currency %	10 year CAGR Base Currency %	1 year CAGR \$US %	10 year CAGR \$US %
Macquarie	29	8	9	8
Peer	n.a.	n.a.	n.a.	n.a.
Peer	n.a.	n.a.	n.a.	n.a.
Peer	n.a.	n.a.	n.a.	n.a.
Peer	(31)	0	(31)	0
Peer	(41)	(5)	(41)	(5)
Peer	12	10	12	10
Peer	131	21	131	21
Peer	80	1	80	1
Peer	79	(8)	70	(5)

Source: Peer underlying data from Annual Reports.

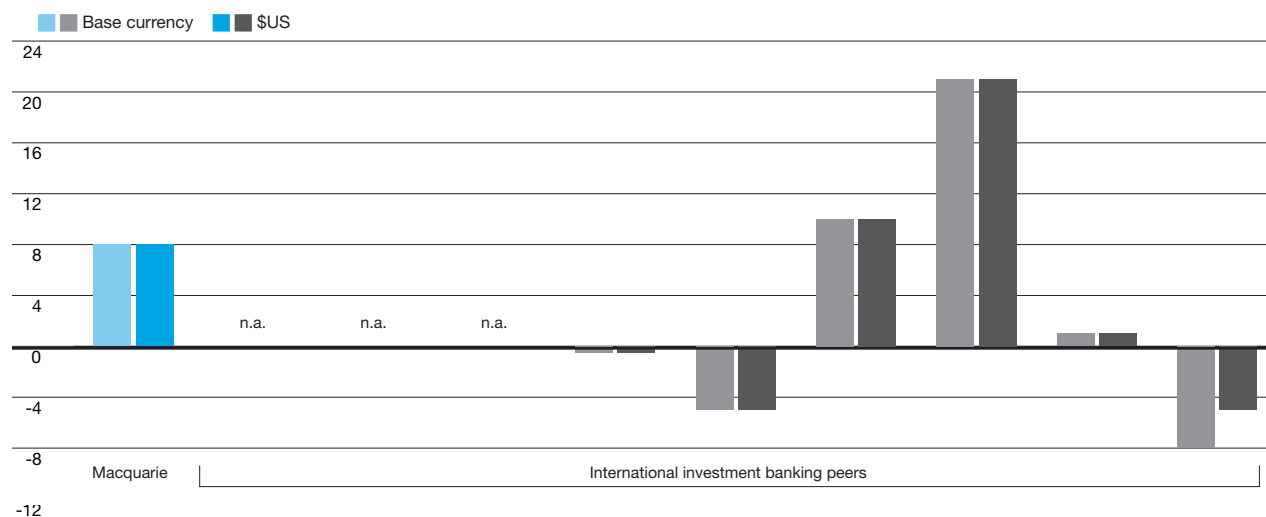
<sup>(1)</sup> Peers comprise Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., Jefferies, JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG. 'n.a.' is noted where the peer recorded a loss 10 years ago, in the prior year or in the current year, and as such CAGR cannot be calculated.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

continued

### NPAT 10 year CAGR<sup>(1)</sup> Macquarie versus international investment banking peers (%)



<sup>(1)</sup> 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, and as such CAGR cannot be calculated.

### Return on equity

Macquarie's annual ROE continues to improve, up from 14.0% in FY2015 to 14.7% in FY2016, and higher than all but one peer. In addition, Macquarie's ten-year average annual ROE exceeds all but one of its peers.

### Peer ROE over ten years: FY2007–2016<sup>(1)</sup>

#### Macquarie versus international investment banking peers

	1 year average %	3 year average %	5 year average %	10 year average %
Macquarie	14.7	13.3	10.9	13.5
Average of Peers	13.8	11.2	9.0	9.2
Peer	6.3	4.2	2.8	4.1
Peer	(0.7)	0.0	0.9	9.4
Peer	(6.7)	0.7	2.0	6.3
Peer	(10.7)	(2.3)	0.4	4.9
Peer	7.5	9.9	8.8	14.5
Peer	10.3	9.5	9.9	9.5
Peer	97.7	64.5	46.3	n.a.
Peer	8.6	5.9	4.3	6.6
Peer	11.7	8.5	5.8	(0.9)

Source: Peer underlying data from Bloomberg and Annual Reports.

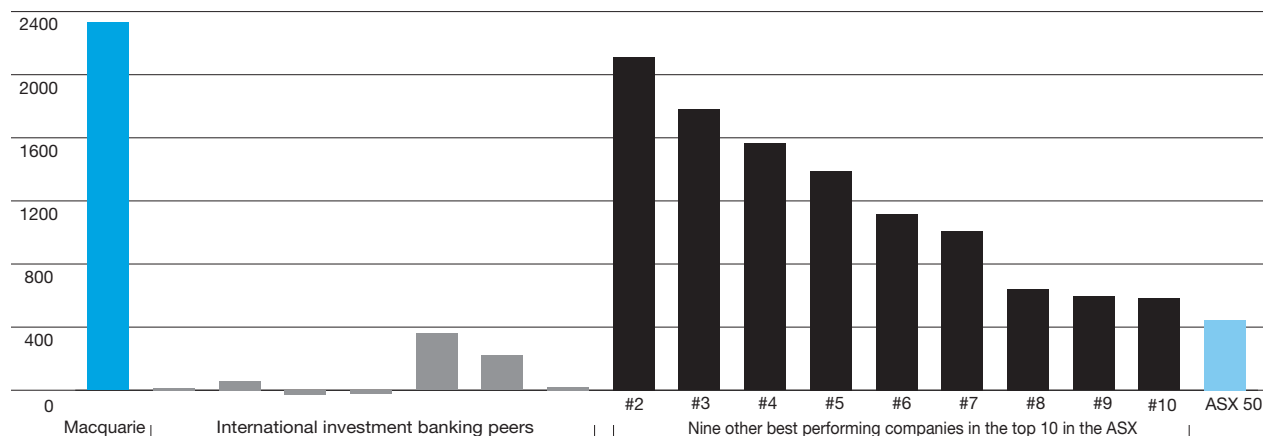
<sup>(1)</sup> Peers comprise Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG.

## Total shareholder return

Macquarie's shareholder return over the long-term has been strong and significantly higher than international investment banking peers. Macquarie's TSR since listing is currently ranked the highest of all companies that were in the ASX Top 50 at the time that MBL listed in July 1996.

### TSR since listing (July 1996)

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

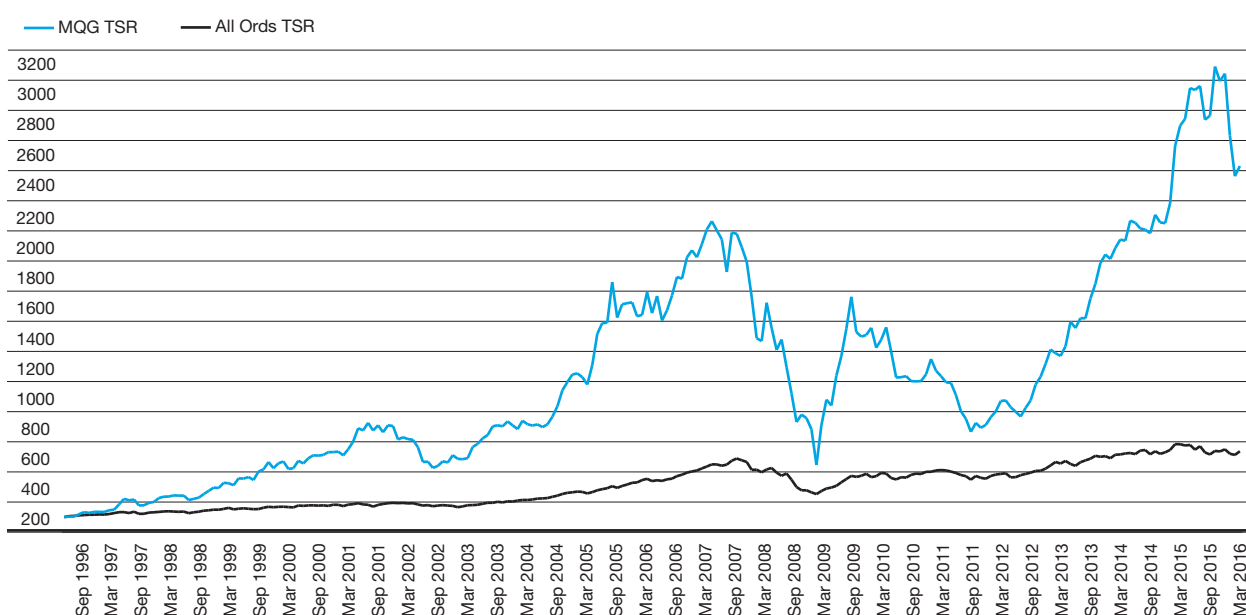


Source: Bloomberg

(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 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, that is, 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<sup>(1)</sup> 29 July 1996 to 31 March 2016



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. Therefore, 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

## for the financial year ended 31 March 2016

continued

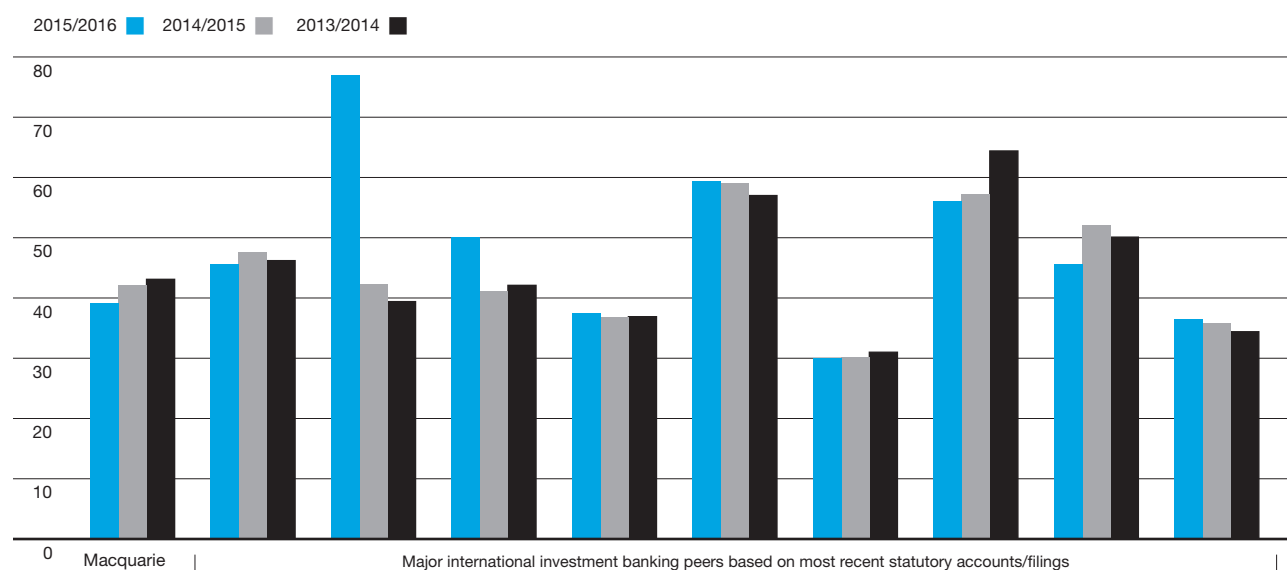
### Compensation expense to income ratio

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 in the investment banking industry as a broad measure of relative 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 adequate measure to use in assessing compensation levels because it fails to take into account factors such as those set out on page 77.

Notwithstanding these factors, Macquarie's FY2016 ratio of 39% is lower than all but three of its peers.

### Compensation ratio: FY2014–2016<sup>(1)</sup> (%)



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

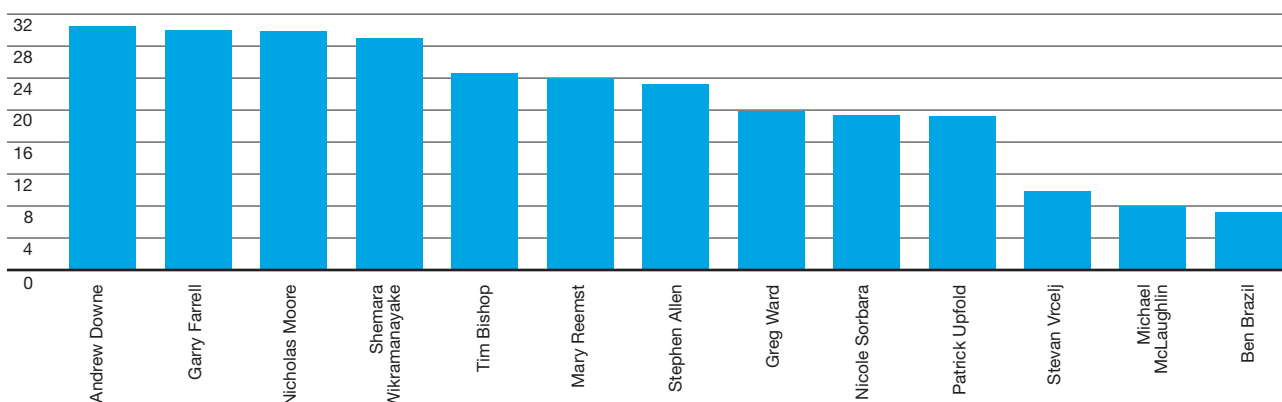
<sup>(1)</sup> Peers comprise Barclays PLC (Investment Banking segment), Credit Suisse Group AG (Investment Banking and Capital Markets and Global Markets segments), Deutsche Bank AG, Goldman Sachs Group Inc., Jefferies Group Inc., JP Morgan Chase (Corporate and Investment Banking segment), Lazard Ltd, 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. A 7.7% director-level voluntary turnover is marginally higher than the prior year, and it remains below voluntary turnover across Macquarie overall.

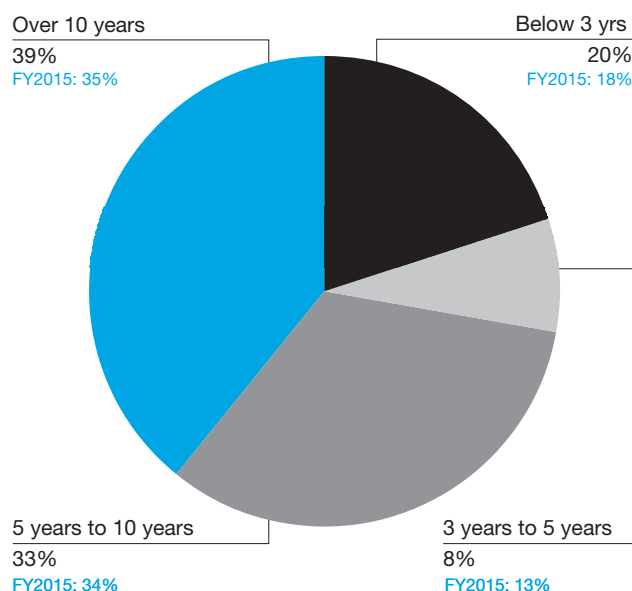
Macquarie continues to have a highly experienced senior management team. The average tenure<sup>(1)</sup> of Macquarie's Executive Committee is approximately 21 years.

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



This depth of experience continues outside of the Executive Committee. As at 31 March 2016, 39% of Director-level staff<sup>(2)</sup> had ten or more years experience with Macquarie, and a further 33% had between five and ten years' experience with Macquarie.

### Director-level staff tenure as at 31 March 2016



(1) This includes accumulated service at acquired companies, for example Bankers Trust Investment Bank Australia.

(2) Directors include all Director-level staff defined as Associate Directors, Division Directors and Executive Directors. As at 31 March 2016, there was a total of 3,200 Director-level staff, of whom 328 were Executive Directors.



# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

### continued

#### 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 oversees 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)<sup>(1)</sup>
- Gary Banks
- Gordon Cairns
- Diane Grady
- Michael Hawker<sup>(2)</sup>.

The BRC members have the required experience and expertise in human resources and risk that enable them to achieve effective governance of Macquarie's remuneration system. All members of the BRC also 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 it met eight 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 responsibilities of the BRC include reviewing the *Remuneration Policy* for compliance with legal and regulatory requirements and recommending it to the Board for approval. The BRC pays close attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives. This includes assessing the effectiveness of the *Remuneration Policy* and ensuring the alignment of remuneration with prudent risk taking and professional conduct across the organisation. Specifically, the BRC reviews:

- the CFO's confirmation that the profit share pool does not result in elimination of capital surpluses
- the CRO's independent annual report which includes losses and impairments, material breaches of the risk management framework as well as the relationship between profitability and risk
- HR's report on the link between remuneration and promotion outcomes and the matters noted in the CRO's report and the findings of the consequence management process.

Each of these processes are discussed in more detail on page 67.

The remuneration governance framework requires that remuneration recommendations relating to staff at various levels of seniority be approved at an appropriate level of authority. Accordingly, 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 this process the CEO meets with the NEDs of the Board towards the end of each financial year to consider formal documentation that outlines his views on the Group's performance. The Group CEO's presentation includes a broad range of the Group's activities covering the following main areas:

- financial position and performance
- risk management and compliance
- people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*
- sustainability (planning and investment in the future)
- community.

Over the course of the year the Board receives regular reports and updates on many of these areas. These are summarised in the CEO's presentation, together with additional information on any particular matters of interest that the Board has identified for further discussion as a part of the review process. The Board then considers the CEO's performance and progress against all of these topics in determining the CEO's remuneration for the year. 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 and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

This information helps the BRC and Board make decisions about remuneration.

The full responsibilities of the BRC 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](http://macquarie.com/leadership-corporate-governance)

<sup>(1)</sup> Mr Warne will remain as Chairman of the BRC until 7 May 2016, after which time he will remain a member of the Committee.

<sup>(2)</sup> Mr Hawker joined the BRC on 1 January 2016 and will become Chairman of the BRC on 8 May 2016.

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### 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 approximate cost of the Pay Governance Review was \$US105,000.

Pay Governance has confirmed that its analysis 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
- Pay Governance met with the BRC Chairman
- no Executive KMP had separate, direct contact with Pay Governance about the Pay Governance Review.

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 long-term, to align the interests of staff and shareholders, to attract and retain the right talent, and to structure and deliver remuneration without encouraging excessive risks
- Macquarie's remuneration components support its remuneration objectives and principles and are largely consistent with practices at peer global investment banks.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

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 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 are also NEDs of 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 that 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 organisations and market trends.

During FY2016, the Board engaged Guerdon Associates to provide market data on international and domestic Board and Board Committee fees. After consideration of the information and relevant factors including the additional risk management and regulatory responsibilities given the global nature of Macquarie's activities, the Board determined that, from 1 October 2015:

- the Board Risk, Audit and Remuneration Committee annual chair and member fees and the combined MGL and MBL Board member annual base fees be increased by \$A5,000 each
- the Board Governance and Compliance Committee annual chair and members fees be aligned with the Board Risk, Audit and Remuneration Committee fees (from \$A57,500 to \$A75,000 for the Chairman and from \$A25,000 to \$A35,000 for members)
- the Chairman's annual fees for chairing the MGL and MBL Boards be increased from \$A825,000 to \$A865,000.

Prior to this financial year, there have been no increases to Board or Board Committee fees since 2010 other than a small increase to Board member base fees in FY2015.

## Macquarie and Macquarie Bank Annual Fees

	Macquarie fees		Macquarie Bank fees		Total fees	
	\$A Chairman	\$A Member	\$A Chairman	\$A Member	\$A Chairman <sup>(1)</sup>	\$A Member
Board	615,000	177,500	250,000	72,500	865,000	250,000
BRiC <sup>(2)</sup>	75,000	35,000	n.a.	n.a.	75,000	35,000
BAC <sup>(2)</sup>	75,000	35,000	n.a.	n.a.	75,000	35,000
BRC <sup>(2)</sup>	75,000	35,000	n.a.	n.a.	75,000	35,000
BGCC <sup>(2)</sup>	75,000	35,000	n.a.	n.a.	75,000	35,000
BNC <sup>(2)</sup>	n.a.	8,000	n.a.	n.a.	n.a.	8,000

(1) The Board Chairman is not paid separate Committee fees. The Board Chairman is Chairman of the BNC, a member of the BRiC and normally attends BAC and BGCC meetings by invitation. Peter Warne will remain as Chairman of the BRC until 7 May 2016, after which time he will remain a member of this Committee.

(2) Macquarie has five standing Board Committees. The Macquarie BAC and BRiC are joint committees of Macquarie and Macquarie Bank. The BRC also advises both Boards.

NEDs may elect to receive their remuneration, in part, in the form of superannuation contributions. Macquarie's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders for this purpose. Macquarie shareholders approved the current limit (\$A4.6 million per annum) at the Group's 2015 AGM. The Board ensures that NED remuneration for Macquarie and Macquarie Bank taken together does not exceed this shareholder approved maximum aggregate amount.

Information on the frequency of Board and Committee meetings is included on pages 55 and 56 of the Directors' Report.

### 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, who are required to have a meaningful direct shareholding in Macquarie.

Under the minimum shareholding requirement, NEDs are required to acquire a minimum of 6,000 shares in Macquarie progressively over a five-year period from the date of their appointment. The Chairman is required to hold a minimum of 12,000 Macquarie shares within three years of appointment as 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 54 of the Directors' Report.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

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 FY2016 and FY2015. The key changes included:

#### Non-Executive Directors

- H.K. McCann retired as Chairman and as a Voting Director on 31 March 2016
- P.H. Warne replaced Mr McCann as Chairman effective on Mr McCann's retirement
- G.M. Cairns was appointed to the Board effective from 1 November 2014
- P.M. Kirby and 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

#### Executives

- B.A. Brazil, M.J. Reemst and P.C. Upfold were appointed to the Executive Committee effective from 1 July 2014

Name	Position	Term as KMP 2016	Term as KMP 2015
<b>Executive Voting Director</b>			
N.W. Moore <sup>(1)</sup>	CEO	Full year	Full year
<b>Non-Executive Directors</b>			
G.R. Banks AO	Independent Director	Full year	Full year
G.M. Cairns	Independent Director	Full year	Part year
M.J. Coleman	Independent Director	Full year	Full year
P.A. Cross	Independent Director	Full year	Full 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
H.K. McCann AM	Independent Chairman	Full year	Full year
H.M. Nugent AO	Former Independent Director	–	Part year
N.M. Wakefield Evans	Independent Director	Full year	Full year
P.H. Warne	Independent Director	Full year	Full year

Continued on the following page.

Name	Position	Term as KMP 2016	Term as KMP 2015
<b>Executives</b>			
S.D. Allen <sup>(1)</sup>	CRO, Head of RMG	Full year	Full year
T.C. Bishop <sup>(1)</sup>	Head of Macquarie Capital	Full year	Full year
B.A. Brazil <sup>(1)</sup>	Co-Head of CAF	Full year	Part year
A.J. Downe <sup>(1)</sup>	Head of CFM	Full year	Full year
G.A. Farrell <sup>(1)</sup>	Co-Head of CAF	Full year	Full year
M. McLaughlin <sup>(1)</sup>	Country Head, United States of America	Full year	Full year
M.J. Reemst <sup>(1)</sup>	Macquarie Bank CEO	Full year	Part year
N. Sorbara <sup>(1)</sup>	COO, Head of COG	Full year	Full year
P.C. Upfold <sup>(1)</sup>	CFO, Head of FMG	Full year	Part year
S. Vrcelj <sup>(1)</sup>	Head of MSG	Full year	Full year
G.C. Ward <sup>(1)</sup>	Deputy Managing Director and Head of BFS	Full year	Full year
S. Wikramanayake <sup>(1)</sup>	Head of MAM	Full year	Full year

<sup>(1)</sup> Members of Macquarie's Executive Committee as at 6 May 2016.

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 2016

### 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 67 to 74.

Under the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2016 and 31 March 2015 only include remuneration relating to the portion of the relevant periods that each person was an Executive KMP. So, comparable executive remuneration is confined to those who were Executive KMP for the full year in both FY2016 and FY2015.

While RSUs and DSUs, and PSUs (for Executive Committee members), for FY2016 will be granted during FY2017, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2015. The expense is estimated using Macquarie's share price as at 31 March 2016 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.32%, expected vest dates of PSU of 1 July 2019 and 1 July 2020, and a dividend yield of 4.57% 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 69, 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 90 and 91. 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 about the individual's current year performance.

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# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

continued

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

#### Short-Term Employee Benefits

			Salary (including superannuation)	Performance related remuneration <sup>(1)</sup>	Total short-term employee benefits
			\$A	\$A	\$A
Executive Voting Director					
N.W. Moore <sup>(6)</sup>	Managing Director and CEO	2016	819,337	5,316,528	6,135,865
		2015	818,948	4,774,084	5,593,032
Other Executives					
S.D. Allen	CRO, Head of RMG	2016	771,140	2,463,988	3,235,128
		2015	770,775	2,415,459	3,186,234
T.C. Bishop	Head of Macquarie Capital	2016	711,427	1,830,933	2,542,360
		2015	722,602	2,330,207	3,052,809
A.J. Downe <sup>(7)</sup>	Head of CFM	2016	917,241	2,857,143	3,774,384
		2015	864,894	5,158,731	6,023,625
G.A. Farrell	Co-Head of CAF	2016	722,944	3,316,907	4,039,851
		2015	722,602	4,025,765	4,748,367
M. McLaughlin <sup>(7)</sup>	Country Head, United States of America	2016	815,557	-	815,557
		2015	685,468	1,300,000	1,985,468
N. Sorbara	COO, Head of COG	2016	699,168	1,990,144	2,689,312
		2015	698,837	1,657,668	2,356,505
S. Vrcelj	Head of MSG	2016	722,944	1,137,225	1,860,169
		2015	722,602	757,791	1,480,393
G.C. Ward	Deputy Managing Director and Head of BFS	2016	771,140	2,899,924	3,671,064
		2015	770,775	2,368,097	3,138,872
S. Wikramanayake	Head of MAM	2016	722,944	7,789,992	8,512,936
		2015	722,602	6,867,481	7,590,083
Total Remuneration – Comparable Executive KMP		2016	7,673,842	29,602,784	37,276,626
		2015	7,500,105	31,655,283	39,155,388
New Executives					
B. Brazil <sup>(8)</sup>	Co-Head of CAF	2016	722,944	6,747,536	7,470,480
		2015	547,052	5,722,938	6,269,990
M. Reemst <sup>(8)</sup>	Macquarie Bank Limited Managing Director and CEO	2016	687,241	1,492,608	2,179,849
		2015	437,642	1,003,884	1,441,526
P. Upfold <sup>(8)</sup>	CFO, Head of FMG	2016	771,140	2,653,525	3,424,665
		2015	583,522	1,792,649	2,376,171
Total Remuneration – Executive KMP (including new executives)		2016	9,855,167	40,496,453	50,351,620
		2015	9,068,321	40,174,754	49,243,075

Long-Term Employee Benefits				Share Based Payments			
Restricted profit share <sup>(2)</sup>	Earnings on prior year restricted profit share <sup>(3)</sup>	Total long-term employee benefits	Equity awards including shares <sup>(4)</sup>	PSUs <sup>(5)</sup>	Total share-based payments	Total Remuneration	Percentage of remuneration that consists of PSUs
\$A	\$A	\$A	\$A	\$A	\$A	\$A	%
1,240,523	251,274	1,491,797	7,069,511	3,462,119	10,531,630	18,159,292	19.07
1,113,953	1,293,714	2,407,667	5,834,545	2,659,826	8,494,371	16,495,070	16.12
246,399	68,671	315,070	1,588,305	1,581,667	3,169,972	6,720,170	23.54
241,546	368,151	609,697	1,500,786	1,185,702	2,686,488	6,482,419	18.29
427,218	(12,911)	414,307	2,411,227	1,794,467	4,205,694	7,162,361	25.05
349,531	659,255	1,008,786	2,101,850	1,331,880	3,433,730	7,495,325	17.77
428,571	493,797	922,368	3,683,786	2,466,982	6,150,768	10,847,520	22.74
515,873	2,360,993	2,876,866	3,598,335	1,894,330	5,492,665	14,393,156	13.16
331,691	155,750	487,441	2,632,648	2,433,409	5,066,057	9,593,349	25.37
402,576	517,494	920,070	2,447,770	1,853,795	4,301,565	9,970,002	18.59
-	130,290	130,290	1,418,577	530,920	1,949,497	2,895,344	18.34
130,000	204,421	334,421	1,872,444	406,290	2,278,734	4,598,623	8.84
199,014	23,058	222,072	937,227	1,420,192	2,357,419	5,268,803	26.95
165,767	85,568	251,335	708,258	1,049,350	1,757,608	4,365,448	24.04
265,353	16,748	282,101	1,077,295	1,524,426	2,601,721	4,743,991	32.13
113,669	78,507	192,176	865,547	1,133,485	1,999,032	3,671,601	30.87
579,985	70,610	650,595	1,815,740	2,128,552	3,944,292	8,265,951	25.75
236,810	372,864	609,674	1,712,133	1,593,651	3,305,784	7,054,330	22.59
3,894,996	393,915	4,288,911	2,329,696	2,487,425	4,817,121	17,618,968	14.12
3,433,741	1,478,785	4,912,526	1,886,653	1,902,080	3,788,733	16,291,342	11.68
7,613,750	1,591,202	9,204,952	24,964,012	19,830,159	44,794,171	91,275,749	
6,703,466	7,419,752	14,123,218	22,528,321	15,010,389	37,538,710	90,817,316	
1,012,130	100,086	1,112,216	5,427,698	1,070,664	6,498,362	15,081,058	7.10
572,294	344,278	916,572	3,108,931	380,011	3,488,942	10,675,504	3.56
149,261	50,881	200,142	924,529	740,077	1,664,606	4,044,597	18.30
100,388	153,561	253,949	595,632	283,891	879,523	2,574,998	11.02
265,353	24,655	290,008	1,425,822	740,077	2,165,899	5,880,572	12.59
179,265	79,903	259,168	861,986	283,891	1,145,877	3,781,216	7.51
9,040,494	1,766,824	10,807,318	32,742,061	22,380,977	55,123,038	116,281,976	
7,555,413	7,997,494	15,552,907	27,094,870	15,958,182	43,053,052	107,849,034	

Continued on the following page.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

continued

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### ***Notes to the statutory remuneration disclosures***

- (1) The cash portion of each person's profit share allocation for the reporting period as an Executive KMP.
- (2) The amount of retained profit share that 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 69.
- (4) The current year expense for retained profit share that is invested in Macquarie shares under the MEREP as described on page 69. This is recognised as an expense over the respective vesting periods as described on pages 70 and 88.
- (5) The current year expense for PSUs that is recognised over the vesting period as described on pages 72 and 88. Adjustments were made during the current and prior year to reduce previously recognised remuneration expense where performance hurdles were not met, have been partially met, or are not expected to be met.

### ***Notes on individuals***

- (6) Mr Moore's FY2016 statutory remuneration includes \$A7.9 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 2000-2015 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 FY2016 differs to FY2015 due to exchange rate movements.
- (8) Mr Brazil, Ms Reemst and Mr Upfold were appointed to the Executive Committee effective from 1 July 2014.

## Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as NEDs are described on pages 84 to 85 of the Remuneration Report:

		Directors Fees \$A	Other Benefits <sup>(1)</sup> \$A	Total Compensation \$A
G.R. Banks <sup>(2)</sup>	2016	329,250	–	329,250
	2015	307,917	–	307,917
G.M. Cairns <sup>(3)</sup>	2016	320,500	–	320,500
	2015	130,417	–	130,417
M.J. Coleman	2016	390,500	12,000	402,500
	2015	372,917	14,400	387,317
P.A. Cross	2016	360,500	–	360,500
	2015	365,417	–	365,417
D.J. Grady	2016	350,500	–	350,500
	2015	332,917	–	332,917
M.J. Hawker <sup>(4)</sup>	2016	376,750	–	376,750
	2015	366,750	–	366,750
P.M. Kirby <sup>(5)</sup>	2016	–	–	–
	2015	101,223	–	101,223
H.K. McCann <sup>(6)</sup>	2016	845,000	–	845,000
	2015	825,000	–	825,000
H.M. Nugent <sup>(7)</sup>	2016	–	–	–
	2015	107,274	13,500	120,774
N.M. Wakefield Evans <sup>(8)</sup>	2016	360,500	–	360,500
	2015	327,917	–	327,917
P.H. Warne	2016	360,500	–	360,500
	2015	336,669	–	336,669
<b>Total Remuneration – Non-Executive KMP</b>	2016	<b>3,694,000</b>	<b>12,000</b>	<b>3,706,000</b>
	2015	3,574,418	27,900	3,602,318

(1) Other benefits for NEDs include due diligence committee fees paid to Mr Coleman of \$A12,000 (FY2015: \$A14,400) and BRC related per diem fees for Dr Nugent in FY2015 of \$A13,500 for approved additional work.

(2) Mr Banks joined the BGCC on 1 January 2016.

(3) Mr Cairns was appointed to the MGL and MBL Boards on 1 November 2014.

(4) Mr Hawker ceased to be Chairman of the BGCC on 31 December 2015 and joined the BRC on 1 January 2016.

(5) Mr Kirby retired from the MGL and MBL Boards on 24 July 2014.

(6) Mr McCann retired from the MGL and MBL Boards on 31 March 2016.

(7) Dr Nugent retired from the MGL and MBL Boards on 24 July 2014.

(8) Ms Wakefield Evans was appointed Chairman of the BGCC on 1 January 2016.



# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

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 2016

Name and position	Number of shares held at 1 April 2015	Shares received on withdrawal from the MEREP	Other changes <sup>(1)</sup>	Number of shares held at 31 March 2016
<b>Executive Voting Director</b>				
N.W. Moore	1,611,814	237,304	–	1,849,118
<b>Non-Executive Directors</b>				
H.K. McCann	13,864	–	663	14,527
G.R. Banks	2,916	–	2,000	4,916
G.M. Cairns	4,620	–	8,114	12,734
M.J. Coleman <sup>(2)</sup>	8,423	–	628	9,051
P.A. Cross	7,636	–	–	7,636
D.J. Grady	6,609	–	1,272	7,881
M.J. Hawker	11,281	–	126	11,407
N.M. Wakefield Evans	2,636	–	1,541	4,177
P.H. Warne	14,933	–	–	14,933
<b>Executives</b>				
S.D. Allen	23,248	77,995	(54,730)	46,513
T.C. Bishop	15,492	61,764	(41,837)	35,419
B.A. Brazil	24,391	51,394	6,950	82,735
A.J. Downe	28,594	156,414	(116,414)	68,594
G.A. Farrell	–	102,987	(102,987)	–
M. McLaughlin	–	61,404	(61,404)	–
M.J. Reemst	10,902	14,988	(14,988)	10,902
N. Sorbara	9,384	10,665	(10,665)	9,384
P.C. Upfold	38,710	17,259	916	56,885
S. Vrcelj	–	35,350	(35,350)	–
G.C. Ward	–	82,499	(82,499)	–
S. Wikramanayake	394,619	102,185	–	496,804

<sup>(1)</sup> Includes on-market acquisitions and disposals.

<sup>(2)</sup> 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.

## 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 grants set out below since the grant date. RSU awards are subject to forfeiture as set out on page 70 and 71. 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 69 and 70. 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 2015 relate to the CEO's performance in FY2015. No awards were forfeited during the year.

Name and position	RSU awards granted to date <sup>(1)(2)</sup>	Grant date	Number vested during the year <sup>(3)(4)</sup>
<b>Executive Voting Directors</b>			
N.W. Moore	124,404	17-Aug-15	–
	117,102	15-Aug-14	7,685
	92,048	15-Aug-13	–
	133,805	15-Aug-12	26,761
	144,026	15-Aug-11	28,805
	100,625	13-Aug-10	19,888
	454,682	3-Mar-10	65,938
<b>Executives</b>			
S.D. Allen <sup>(5)</sup>	26,975	6-Jul-15	–
	29,934	25-Jun-14	2,395
	27,120	25-Jun-13	–
	41,150	7-Jun-12	8,230
	37,902	20-Jun-11	20,554
	13,385	15-Feb-11	–
	25,867	30-Jun-10	–
	109,713	3-Mar-10	11,051
T.C. Bishop <sup>(6)</sup>	39,035	6-Jul-15	–
	37,947	25-Jun-14	2,429
	45,305	25-Jun-13	–
	31,361	7-Jun-12	6,272
	58,864	20-Jun-11	19,524
	5,509	15-Apr-11	1,088
B. Brazil	84,429	6-Jul-15	–
A.J. Downe	57,546	6-Jul-15	–
	75,152	25-Jun-14	4,663
	58,182	25-Jun-13	–
	95,575	7-Jun-12	19,115
	82,233	20-Jun-11	16,446
	93,557	30-Jun-10	18,491
	78,150	3-Mar-10	15,266
G.A. Farrell	44,959	6-Jul-15	–
	48,496	25-Jun-14	3,202
	46,229	25-Jun-13	–
	88,108	7-Jun-12	17,621
	57,259	20-Jun-11	11,451

Continued on the following page.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

continued

Name and position	RSU awards granted to date <sup>(1)(2)</sup>	Grant date	Number vested during the year <sup>(3)(4)</sup>
M. McLaughlin	14,501	6-Jul-15	–
	25,321	25-Jun-14	3,085
	28,490	25-Jun-13	–
	14,908	7-Jun-12	2,981
M. Reemst	14,810	6-Jul-15	–
N. Sorbara	18,512	6-Jul-15	–
	17,105	25-Jun-14	635
	12,327	25-Jun-13	–
P. Upfold	26,446	6-Jul-15	–
S. Vrcelj	12,694	6-Jul-15	–
	18,792	25-Jun-14	1,090
	52,872	20-Jun-11	10,574
G.C. Ward	26,446	6-Jul-15	–
	31,696	25-Jun-14	2,486
	31,229	25-Jun-13	–
	46,460	7-Jun-12	9,292
	43,316	20-Jun-11	8,663
	36,591	30-Jun-10	7,231
	90,110	3-Mar-10	14,435
S. Wikramanayake <sup>(7)</sup>	42,608	6-Jul-15	–
	47,019	25-Jun-14	2,282
	35,957	25-Jun-13	–
	58,075	7-Jun-12	11,614
	35,245	20-Jun-11	17,231
	13,605	30-Jun-10	–
	66,611	3-Mar-10	2,201

(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 for 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 2016, 49,043 awards granted in previous years, 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 2016, 48,972 awards granted in previous years, 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 2016, 34,232 awards granted in previous years, 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 2015 relate to the Executive KMP's performance in FY2015. There were no PSUs that vested during the year which were not exercised.

Name and position	Granted to date			Forfeited/Lapsed during the financial year <sup>(2)(3)</sup>			Exercised during the financial year <sup>(3)</sup>	
	Number <sup>(1)</sup>	Date	Value \$A <sup>(1)</sup>	Number	%	Value \$A <sup>(4)</sup>	Number exercised	Value \$A <sup>(5)</sup>
<b>Executive Voting Director</b>								
N.W. Moore	52,947	17-Aug-15	3,535,271	–	–	–	–	–
	84,920	15-Aug-14	4,067,668	–	–	–	–	–
	78,017	15-Aug-13	3,223,662	–	–	–	–	–
	113,886	15-Aug-12	2,495,242	7,972	7	648,921	48,970	3,874,506
	153,988	15-Aug-11	3,216,809	11,074	7	901,424	39,257	3,105,621
<b>Executives</b>								
S.D. Allen	26,369	17-Aug-15	1,760,658	–	–	–	–	–
	36,191	15-Aug-14	1,733,549	–	–	–	–	–
	33,157	15-Aug-13	1,370,047	–	–	–	–	–
	49,411	15-Aug-12	1,082,595	3,460	7	281,644	21,245	1,751,438
	56,956	15-Aug-11	1,189,811	4,096	7	333,414	14,520	1,199,062
T.C. Bishop	31,560	17-Aug-15	2,107,261	–	–	–	–	–
	43,315	15-Aug-14	2,074,789	–	–	–	–	–
	39,895	15-Aug-13	1,648,462	–	–	–	–	–
	25,308	15-Aug-12	554,499	1,772	7	144,241	10,882	891,127
	68,645	15-Aug-11	1,433,994	4,937	7	401,872	17,500	1,429,752
B. Brazil	35,298	17-Aug-15	2,356,847	–	–	–	–	–
A.J. Downe	37,374	17-Aug-15	2,495,462	–	–	–	–	–
	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,193	15-Aug-13	2,197,935	–	–	–	–	–
	101,232	15-Aug-12	2,217,993	7,087	7	576,882	43,528	3,433,053
	109,461	15-Aug-11	2,286,614	7,872	7	640,781	38,905	3,075,820
G.A. Farrell	37,374	17-Aug-15	2,495,462	–	–	–	–	–
	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,194	15-Aug-13	2,197,976	–	–	–	–	–
	92,796	15-Aug-12	2,033,160	6,497	7	528,856	39,900	3,324,765
	75,652	15-Aug-11	1,580,370	5,470	7	445,258	19,392	1,617,303
M. McLaughlin	8,305	17-Aug-15	554,525	–	–	–	–	–
	13,393	15-Aug-14	641,525	–	–	–	–	–
	12,412	15-Aug-13	512,864	–	–	–	–	–
	15,064	15-Aug-12	330,053	1,055	7	85,877	6,477	533,893
M. Reemst	26,369	17-Aug-15	1,760,658	–	–	–	–	–
N. Sorbara	26,369	17-Aug-15	1,760,658	–	–	–	–	–
	36,191	15-Aug-14	1,733,549	–	–	–	–	–
	33,158	15-Aug-13	1,370,088	–	–	–	–	–
P. Upfold	26,369	17-Aug-15	1,760,658	–	–	–	–	–

Continued on the following page.

# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

continued

Name and position	Granted to date			Forfeited/Lapsed during the financial year <sup>(2)(3)</sup>			Exercised during the financial year <sup>(3)</sup>	
	Number <sup>(1)</sup>	Date	Value \$A <sup>(1)</sup>	Number	%	Value \$A <sup>(4)</sup>	Number exercised	Value \$A <sup>(5)</sup>
S. Vrcelj	28,030	17-Aug-15	1,871,563	–	–	–	–	–
	38,470	15-Aug-14	1,842,713	–	–	–	–	–
	35,463 <sup>(6)</sup>	15-Aug-13	1,383,005	–	–	–	–	–
	50,216	15-Aug-11	1,049,012	3,612	7	294,017	12,801	1,051,739
G.C. Ward	36,128	17-Aug-15	2,412,267	–	–	–	–	–
	49,584	15-Aug-14	2,375,074	–	–	–	–	–
	45,569	15-Aug-13	1,882,911	–	–	–	–	–
	55,436	15-Aug-12	1,214,603	3,881	7	315,913	23,837	1,949,563
	64,935	15-Aug-11	1,356,492	4,670	7	380,138	16,555	1,354,495
S. Wikramanayake	37,374	17-Aug-15	2,495,462	–	–	–	–	–
	57,848	15-Aug-14	2,770,919	–	–	–	–	–
	53,193	15-Aug-13	2,197,935	–	–	–	–	–
	110,270	15-Aug-12	2,416,016	7,720	7	628,408	47,415	3,895,616
	84,106	15-Aug-11	1,756,974	6,049	7	492,389	21,442	1,762,318

(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 15 August 2011 and vesting at 1 July 2015 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) One ordinary share was issued as a result of the exercise of one PSU.

(4) Based on closing share price at 30 June 2015, 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.

As required under the Act, 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 2015 PSU allocation has been determined based on a valuation of a PSU at 17 August 2015. The fair value of \$A66.77 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: 2.45%
- expected vest date: 1 July 2018 and 1 July 2019
- dividend yield: 4.73% per annum.

PSUs have a nil exercise price. PSUs vest on a pro-rata basis as set out on pages 72 to 73. For the 2015 grant, the first tranche will vest on 1 July 2018. The PSUs expire on 15 August 2023.

## MEREP Awards of Key Management Personnel and their related parties<sup>(1)</sup>

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 32 to the financial statements in the Financial Report.

For the financial year ended 31 March 2016

Name and position	Type of Award	Number of awards held at 1 April 2015	Awards granted during the financial year <sup>(2)</sup>	Awards vested/exercised during the financial year <sup>(3)</sup>	Awards not able to be exercised due to performance hurdles not met <sup>(4)</sup>	Number of awards held at 31 March 2016
<b>Executive Voting Director</b>						
N.W. Moore	RSU	649,723	124,404	149,077	–	625,050
	PSU	327,154	52,947	88,227	19,046	272,828
<b>Executives</b>						
S.D. Allen <sup>(5)</sup>	RSU	186,871	26,975	42,230	–	171,616
	PSU	137,375	26,369	35,765	7,556	120,423
T.C. Bishop <sup>(5)</sup>	RSU	197,146	39,035	33,382	–	202,799
	PSU	130,955	31,560	28,382	6,709	127,424
B.A. Brazil	RSU	445,671	84,429	51,394	–	478,706
	PSU	–	35,298	–	–	35,298
A.J. Downe	RSU	380,704	57,546	73,981	–	364,269
	PSU	259,050	37,374	82,433	14,959	199,032
G.A. Farrell	RSU	258,328	44,959	43,695	–	259,592
	PSU	228,700	37,374	59,292	11,967	194,815
M. McLaughlin	RSU	227,480	14,501	54,927	–	187,054
	PSU	40,869	8,305	6,477	1,055	41,642
M.J. Reemst	RSU	87,698	14,810	14,988	–	87,520
	PSU	–	26,369	–	–	26,369
N. Sorbara	RSU	58,768	18,512	10,665	–	66,615
	PSU	69,349	26,369	–	–	95,718
P.C. Upfold	RSU	104,516	26,446	17,259	–	113,703
	PSU	–	26,369	–	–	26,369
S. Vrcelj	RSU	90,261	12,694	22,549	–	80,406
	PSU	90,346	28,030	12,801	3,612	101,963
G.C. Ward	RSU	194,609	26,446	42,107	–	178,948
	PSU	171,814	36,128	40,392	8,551	158,999
S. Wikramanayake <sup>(5)</sup>	RSU	196,569	42,608	33,328	–	205,849
	PSU	248,802	37,374	68,857	13,769	203,550

(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) 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 FY2015.

(3) 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.

(4) Performance hurdles for PSU awards issued on or after 15 August 2011 and vesting at 1 July 2015 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.

(5) Refer to footnotes (5), (6) and (7) in the table 'RSU Awards to KMP' on pages 95 to 96.



# Directors' Report Schedule 2 – Remuneration Report

## for the financial year ended 31 March 2016

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<sup>(1)</sup> are disclosed in the following tables:

Name and position	Balance at 1 April 2015 \$A'000	Interest charged <sup>(2)</sup> \$A'000	Write-downs \$A'000	Balance at 31 March 2016 \$A'000	Highest balance during year \$A'000
<b>Executives</b>					
N. Sorbara	559	9	–	–	625

(1) There were no other loans provided by Macquarie to KMP and their related parties during the financial year ended 31 March 2016.

(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 2007 through to 31 March 2016 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 2016



## Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2016, 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.

A handwritten signature in black ink that reads 'K. G. Smith'.

### K.G. Smith

Partner  
PricewaterhouseCoopers

Sydney  
6 May 2016

Liability limited by a scheme approved under Professional Standards Legislation.

# Financial Report

## for the financial year ended 31 March 2016

### Contents

<b>Income statements .....</b>	<b>103</b>
<b>Statements of comprehensive income.....</b>	<b>104</b>
<b>Statements of financial position .....</b>	<b>105</b>
<b>Statements of changes in equity .....</b>	<b>106</b>
<b>Statements of cash flow .....</b>	<b>108</b>
<b>Notes to the financial statements .....</b>	<b>109</b>
1 Summary of significant accounting policies.....	109
2 Profit for the financial year .....	120
3 Segment reporting .....	123
4 Income tax expense.....	127
5 Dividends and distributions paid or provided for .....	128
6 Earnings per share.....	129
7 Receivables from financial institutions .....	131
8 Trading portfolio assets.....	131
9 Investment securities available for sale.....	132
10 Other assets .....	132
11 Loan assets held at amortised cost .....	133
12 Impaired financial assets .....	135
13 Other financial assets at fair value through profit or loss.....	135
14 Property, plant and equipment.....	136
15 Interests in associates and joint ventures accounted for using the equity method.....	138
16 Intangible assets .....	139
17 Investments in subsidiaries .....	141
18 Deferred tax assets/(liabilities) .....	143
19 Trading portfolio liabilities .....	144
20 Deposits .....	144
21 Other liabilities.....	144
22 Payables to financial institutions.....	144
23 Debt issued at amortised cost .....	145
24 Other financial liabilities at fair value through profit or loss .....	146
25 Capital management strategy .....	147
26 Loan capital .....	148
27 Contributed equity .....	151
28 Reserves, retained earnings and non-controlling interests .....	154
29 Notes to the statements of cash flows .....	156
30 Related party information .....	157
31 Key Management Personnel disclosure .....	159
32 Employee equity participation .....	163
33 Contingent liabilities and commitments .....	169
34 Lease commitments .....	169
35 Structured entities.....	170
36 Derivative financial instruments .....	173
37 Financial risk management.....	174
38 Fair value of financial assets and liabilities .....	197
39 Offsetting financial assets and financial liabilities .....	207
40 Transfers of financial assets .....	210
41 Audit and other services provided by PricewaterhouseCoopers .....	212
42 Acquisitions and disposals of subsidiaries and businesses .....	213
43 Events after the reporting date .....	216
<b>Directors' declaration .....</b>	<b>217</b>
<b>Independent auditor's report .....</b>	<b>218</b>
<b>Ten year history .....</b>	<b>219</b>

The Financial Report was authorised for issue by the Directors on 6 May 2016.  
The Consolidated Entity has the power to amend and reissue the Financial Report.

# Income statements

## for the financial year ended 31 March 2016

	Notes	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
Interest and similar income	2	5,461	5,009	519	372
Interest expense and similar charges	2	(3,182)	(2,917)	(433)	(375)
Net interest income/(expense)		2,279	2,092	86	(3)
Fee and commission income	2	4,862	4,739	–	9
Net trading income	2	2,067	1,727	22	67
Share of net profits of associates and joint ventures accounted for using the equity method	2	4	5	–	–
Other operating income and charges	2	923	699	4,320	2,544
Net operating income		10,135	9,262	4,428	2,617
Employment expenses	2	(4,244)	(4,143)	(4)	(4)
Brokerage, commission and trading-related expenses	2	(892)	(824)	(4)	–
Occupancy expenses	2	(397)	(374)	–	–
Non-salary technology expenses	2	(587)	(437)	–	–
Other operating expenses	2	(1,000)	(962)	(2)	–
Total operating expenses		(7,120)	(6,740)	(10)	(4)
<b>Operating profit before income tax</b>		<b>3,015</b>	<b>2,522</b>	<b>4,418</b>	<b>2,613</b>
Income tax expense	4	(927)	(899)	(39)	(32)
<b>Profit after income tax</b>		<b>2,088</b>	<b>1,623</b>	<b>4,379</b>	<b>2,581</b>
(Profit)/loss attributable to non-controlling interests:					
Macquarie Income Securities	5	(16)	(18)	–	–
Macquarie Income Preferred Securities	5	(1)	(5)	–	–
Other non-controlling interests		(8)	4	–	–
Profit attributable to non-controlling interests		(25)	(19)	–	–
<b>Profit attributable to ordinary equity holders of Macquarie Group Limited</b>		<b>2,063</b>	<b>1,604</b>	<b>4,379</b>	<b>2,581</b>
<b>Cents per share</b>					
<b>Basic earnings per share</b>	6	<b>619.2</b>	502.3		
<b>Diluted earnings per share</b>	6	<b>600.1</b>	484.2		

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

# Statements of comprehensive income

## for the financial year ended 31 March 2016

	Notes	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Profit after income tax</b>		<b>2,088</b>	1,623	<b>4,379</b>	2,581
Other comprehensive income/(expense) <sup>(1)</sup> :					
Available for sale investments, net of tax		<b>112</b>	58	–	–
Cash flow hedges, net of tax	28	<b>(34)</b>	(56)	–	–
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	28	<b>1</b>	(14)	–	–
Exchange differences on translation of foreign operations, net of hedge and tax		<b>(188)</b>	877	–	–
Total other comprehensive (expense)/income		<b>(109)</b>	865	–	–
<b>Total comprehensive income</b>		<b>1,979</b>	2,488	<b>4,379</b>	2,581
Total comprehensive income/(expense) attributable to:					
Ordinary equity holders of Macquarie Group Limited		<b>1,964</b>	2,460	<b>4,379</b>	2,581
Macquarie Income Securities holders		<b>16</b>	18	–	–
Macquarie Income Preferred Securities holders		<b>5</b>	11	–	–
Other non-controlling interests		<b>(6)</b>	(1)	–	–
<b>Total comprehensive income</b>		<b>1,979</b>	2,488	<b>4,379</b>	2,581

<sup>(1)</sup> 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 2016

	Notes	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Assets</b>					
Receivables from financial institutions	7	33,128	28,705	–	–
Trading portfolio assets	8	23,537	30,406	–	–
Derivative assets		17,983	20,080	–	–
Investment securities available for sale	9	11,456	8,896	–	–
Other assets	10	12,496	13,557	36	138
Loan assets held at amortised cost	11	80,366	72,762	–	–
Other financial assets at fair value through profit or loss	13	1,649	2,125	–	–
Due from subsidiaries	30	–	–	10,853	10,361
Property, plant and equipment	14	11,521	7,079	–	–
Interests in associates and joint ventures accounted for using the equity method	15	2,691	2,328	–	–
Intangible assets	16	1,078	1,164	–	–
Investments in subsidiaries	17	–	–	20,339	15,871
Deferred tax assets	18	850	874	74	59
<b>Total assets</b>		<b>196,755</b>	<b>187,976</b>	<b>31,302</b>	<b>26,429</b>
<b>Liabilities</b>					
Trading portfolio liabilities	19	5,030	5,295	–	–
Derivative liabilities		14,744	18,267	–	–
Deposits	20	52,245	47,386	–	18
Other liabilities	21	13,103	16,050	198	68
Payables to financial institutions	22	23,860	18,645	2,850	2,566
Due to subsidiaries	30	–	–	873	810
Debt issued at amortised cost	23	63,685	61,463	6,425	6,179
Other financial liabilities at fair value through profit or loss	24	2,672	1,626	–	–
Deferred tax liabilities	18	543	464	–	–
<b>Total liabilities excluding loan capital</b>		<b>175,882</b>	<b>169,196</b>	<b>10,346</b>	<b>9,641</b>
<b>Loan capital</b>					
Subordinated debt at amortised cost		5,209	4,384	1,126	603
<b>Total loan capital</b>	26	<b>5,209</b>	<b>4,384</b>	<b>1,126</b>	<b>603</b>
<b>Total liabilities</b>		<b>181,091</b>	<b>173,580</b>	<b>11,472</b>	<b>10,244</b>
<b>Net assets</b>		<b>15,664</b>	<b>14,396</b>	<b>19,830</b>	<b>16,185</b>
<b>Equity</b>					
Contributed equity	27	6,422	5,947	9,097	8,667
Reserves	28	1,536	1,656	686	654
Retained earnings	28	7,158	6,306	10,047	6,864
<b>Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited</b>		<b>15,116</b>	<b>13,909</b>	<b>19,830</b>	<b>16,185</b>
Non-controlling interests	28	548	487	–	–
<b>Total equity</b>		<b>15,664</b>	<b>14,396</b>	<b>19,830</b>	<b>16,185</b>

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 2016

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
							<b>Consolidated</b>
Balance at 1 April 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 ordinary equity holders:							
Contribution of ordinary equity, net of transaction costs	27	847	–	–	847	–	847
Purchase of shares by MEREP Trust	27	(266)	–	–	(266)	–	(266)
Dividends paid	5,28	–	–	(931)	(931)	–	(931)
Non-controlling interests:							
Change in non controlling ownership interests	28	–	–	(4)	(4)	(12)	(16)
Distributions paid or provided for		–	–	–	–	(25)	(25)
Other equity movements:							
MEREP expense	28	–	319	–	319	–	319
Additional deferred tax benefit on MEREP expense	28	–	67	–	67	–	67
Transfer from share-based payments reserve:							
– to other liabilities for cash settled awards	28	–	(1)	–	(1)	–	(1)
– to contributed equity for equity settled awards	27,28	242	(242)	–	–	–	–
Transfer from share-based payment capital reduction reserve to contributed equity	27,28	(19)	19	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense upon vesting to contributed equity	27,28	31	(31)	–	–	–	–
		835	131	(935)	31	(37)	(6)
<b>Balance at 31 March 2015</b>		<b>5,947</b>	<b>1,656</b>	<b>6,306</b>	<b>13,909</b>	<b>487</b>	<b>14,396</b>
Profit after income tax		–	–	2,063	2,063	25	2,088
Other comprehensive expense, net of tax		–	(99)	–	(99)	(10)	(109)
Total comprehensive (expense)/income		–	(99)	2,063	1,964	15	1,979
Transactions with equity holders in their capacity as ordinary equity holders:							
Contribution of ordinary equity, net of transaction costs		532	–	–	532	–	532
Purchase of shares by MEREP Trust	27	(383)	–	–	(383)	–	(383)
Dividends paid	5,28	–	–	(1,208)	(1,208)	–	(1,208)
Sale of Treasury shares	27	20	–	–	20	–	20
Non-controlling interests:							
Change in non controlling ownership interests		–	–	(3)	(3)	78	75
Dividends and distributions paid or provided for		–	–	–	–	(32)	(32)
Other equity movements:							
MEREP expense	28	–	298	–	298	–	298
Additional deferred tax benefit on MEREP expense	28	–	4	–	4	–	4
Transfer from share-based payments reserve:							
– to other liabilities for cash settled awards	28	–	(17)	–	(17)	–	(17)
– to contributed equity for equity settled awards	27,28	271	(271)	–	–	–	–
Transfer from share-based payment capital reduction reserve to contributed equity	27,28	(20)	20	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense upon vesting to contributed equity	27,28	55	(55)	–	–	–	–
		475	(21)	(1,211)	(757)	46	(711)
<b>Balance at 31 March 2016</b>		<b>6,422</b>	<b>1,536</b>	<b>7,158</b>	<b>15,116</b>	<b>548</b>	<b>15,664</b>

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
							<b>Company</b>
Balance at 1 April 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 ordinary equity holders:							
Contribution of ordinary equity, net of transaction costs		858	–	–	858	–	858
Purchase of shares by MEREP Trust	27	(266)	–	–	(266)	–	(266)
Dividends paid	5, 28	–	–	(921)	(921)	–	(921)
Other equity movements:							
MEREP expense	28	–	319	–	319	–	319
Transfer from share-based payments reserve:							
– to other liabilities for cash settled awards	28	–	(1)	–	(1)	–	(1)
– to contributed equity for equity settled awards	27, 28	242	(242)	–	–	–	–
Transfer from share-based payment capital reduction reserve to contributed equity	27, 28	(19)	19	–	–	–	–
		815	95	(921)	(11)	–	(11)
<b>Balance at 31 March 2015</b>		<b>8,667</b>	<b>654</b>	<b>6,864</b>	<b>16,185</b>	<b>–</b>	<b>16,185</b>
Profit after income tax		–	–	4,379	4,379	–	4,379
Total comprehensive income		–	–	4,379	4,379	–	4,379
Transactions with equity holders in their capacity as ordinary equity holders:							
Contribution of ordinary equity, net of transaction costs		538	–	–	538	–	538
Purchase of shares by MEREP Trust	27	(383)	–	–	(383)	–	(383)
Dividends paid	5, 28	–	–	(1,196)	(1,196)	–	(1,196)
Sale of Treasury shares		17	–	–	17	–	17
Other equity movements:							
MEREP expense	28	–	298	–	298	–	298
Additional deferred tax benefit on MEREP expense		–	9	–	9	–	9
Transfer from share-based payments reserve:							
– to other liabilities for cash settled awards	28	–	(17)	–	(17)	–	(17)
– to contributed equity for equity settled awards	27, 28	271	(271)	–	–	–	–
Transfer from share-based payment capital reduction reserve to contributed equity	27, 28	(20)	20	–	–	–	–
Transfer of additional deferred tax benefit on MEREP expense upon vesting to contributed equity	27, 28	7	(7)	–	–	–	–
		430	32	(1,196)	(734)	–	(734)
<b>Balance at 31 March 2016</b>		<b>9,097</b>	<b>686</b>	<b>10,047</b>	<b>19,830</b>	<b>–</b>	<b>19,830</b>

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

# Statements of cash flow

## for the financial year ended 31 March 2016

	Notes	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Cash flows from/(used in) operating activities</b>					
Interest received		5,455	4,680	519	369
Interest and other costs of finance paid		(3,125)	(2,935)	(426)	(377)
Dividends and distributions received		226	257	2,199	1,273
Fees and other non-interest income received		6,718	5,721	6	92
Fees and commissions paid		(835)	(799)	(4)	–
Net payments on trading portfolio assets and other financial assets/liabilities		(1,327)	(12,258)	–	–
Payments to suppliers		(2,829)	(1,119)	–	–
Employment expenses paid		(4,102)	(3,582)	(17)	(4)
Income tax (paid)/refund		(1,178)	(178)	(125)	116
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		1,056	1,392	–	–
Life investment contract payments, acquisition of investment assets and other unitholder redemptions		(972)	(1,331)	–	–
Net loan assets granted		(1,013)	(10,506)	191	(1,339)
Net margin money placed		314	(3,064)	–	–
Net increase in payables to other financial institutions, deposits and other borrowings		15,120	22,140	507	1,163
Proceeds from the disposal of operating lease assets		36	64	–	–
Payments for the acquisition of operating lease assets		(721)	(895)	–	–
Net cash flows from/(used in) operating activities	29	12,823	(2,413)	2,850	1,293
<b>Cash flows (used in)/from investing activities</b>					
Net (payments for)/proceeds from investment securities available for sale		(2,406)	2,993	–	–
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		1,897	1,855	2,121	–
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		(14,580)	(776)	(4,461)	(950)
Proceeds from the disposal of property, plant and equipment, finance lease assets and intangible assets		34	158	–	–
Payments for the acquisition of property, plant and equipment, finance lease assets and intangible assets		(183)	(416)	–	–
Net cash flows (used in)/from investing activities		(15,238)	3,814	(2,340)	(950)
<b>Cash flows (used in)/from financing activities</b>					
Proceeds from the issue of ordinary shares		530	673	530	673
Proceeds from/(payments to) non-controlling interests		120	(13)	–	–
Proceeds from the issue of subordinated debt		1,503	421	522	–
Redemption of loan capital		(718)	–	–	–
Redemption of Macquarie Income Preferred Securities		(82)	–	–	–
Dividends and distributions paid		(1,228)	(783)	(1,196)	(750)
Proceeds from sale of treasury shares	27	20	–	17	–
Payments for acquisition of treasury shares	27	(383)	(266)	(383)	(266)
Net cash flows (used in)/from financing activities		(238)	32	(510)	(343)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,653)</b>	<b>1,433</b>	<b>–</b>	<b>–</b>
Cash and cash equivalents at the beginning of the financial year		16,973	15,540	–	–
<b>Cash and cash equivalents at the end of the financial year</b>	29	<b>14,320</b>	<b>16,973</b>	<b>–</b>	<b>–</b>

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

# Notes to the financial statements

## for the financial year ended 31 March 2016

### 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 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 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 38)
- impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures, investment in subsidiaries and assets under operating lease (Notes 1(xii), 1(xiv), 1(xvi), 9, 11, 14, 15 and 17)
- distinguishing between whether assets or a business is acquired (Note 1(iii))
- determination of control of subsidiaries and structured entities (Notes 1(ii) and 35)
- 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)
- recognition of performance fees from Macquarie-managed unlisted funds (Note 1(vi)), and
- recognition and measurement of supplemental income and maintenance liabilities (Note 1(xix), 10 and 21).

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

The 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 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 may 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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 1

### Summary of significant accounting policies continued

**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 loss (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 incorporate 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. An IFRS 9 program has been established to ensure a high quality implementation in compliance with the accounting standard and proposed regulatory guidance. The program has members from both finance and risk functions with oversight of a steering committee which includes the Chief Risk Officer (CRO) and Chief Financial Officer (CFO). The key responsibilities of the program include defining the operating model and governance framework, setting accounting policy and identifying data and system requirements.

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 2018. The Consolidated Entity will first apply AASB 15 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 16 Leases**

AASB 16 will replace AASB 117 *Leases*. It requires recognition of a right of use asset along with the associated lease liability where the Consolidated Entity is a lessee. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. Lessor accounting would largely remain unchanged. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Consolidated Entity will first apply AASB 16 in the financial year beginning 1 April 2019. The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

#### **(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 Company 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% of the issued capital, are shown separately in the consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position, respectively.

Where control of an entity was obtained during the financial year, its results are included in the consolidated income statements from the date on which control commenced. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

The Company and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct 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 loss in the consolidated income statements, 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 acquisition date) of assets acquired, equity instruments issued or liabilities incurred or assumed at the date of acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity, and those arising on borrowings are capitalised and included in interest expense using the effective interest method.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure NCI relating to ordinary shares either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities. The excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration given, 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 acquisition. 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 (for example tangible or intangible assets, and intellectual property) and a majority of the critical processes (for example 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.



# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 1

### Summary of significant accounting policies continued

#### (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. Other than for certain foreign operations, foreign exchange gain and loss 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, being 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 gain and loss 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.

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### **(vii) Income tax**

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.

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 enacted or substantively enacted tax law.

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

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

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

### **Tax consolidation**

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

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

### **(viii) Cash collateral on securities borrowed/lent and reverse repurchase/repurchase agreements**

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

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

Cash provided as collateral on securities borrowed or on the reverse repurchase agreement is included in receivables from financial institutions 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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 1

### Summary of significant accounting policies continued

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

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

#### (ix) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see Note 38). Realised gain and loss, and unrealised gain and loss 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 for 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 profit or loss arising from revaluing that contract to fair value is recognised in the income statement. When the Consolidated Entity becomes party to a sale contract of a financial asset, it derecognises the asset and recognises a trade receivable from trade date until settlement date.

#### (x) Derivative instruments

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

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

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

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

#### (xi) Hedge accounting

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

##### Cash flow hedges

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

##### Fair value hedges

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

##### Net investment hedges

For a derivative or borrowing designated as hedging a net investment in a foreign operation, the gain or loss on revaluing the derivative or borrowing associated with the effective portion of the hedge is recognised in the foreign currency translation reserve and subsequently released to the income statement when the foreign operation is disposed of. The ineffective portion is recognised in the income statement immediately.

The fair values of various financial instruments used for hedging purposes are disclosed in Note 38. Movements in the cash flow hedging reserve in equity are shown in Note 28.

## **(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. Gain and loss arising from subsequent changes in fair values 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).

## **(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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 1

### Summary of significant accounting policies continued

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

An unrecoverable loan is written off, either partially or in full, against the related provision for loan impairment. This occurs when the Consolidated Group concludes that there is no reasonable expectation of recovering cash flows from the asset or the debtor and all possible collateral has been realised. Recoveries of loans previously written off are recorded based on the cash received.

#### **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 loss recognised in the income statement for equity securities classified as available for sale are not subsequently reversed through the income statement. However impairment loss 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 loss is 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.

An impaired investment in an associate or joint venture is written off, either partially or in full, when there is no reasonable expectation of recovering cash flows from the investment, and all avenues of recovery have been exhausted. Recoveries from investments in associates or joint ventures previously written off are recorded based on the cash received.

#### **Investments in subsidiaries**

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

#### **(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 loss, 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 aviation assets is calculated on a diminishing balance method and depreciation on all other 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%
Furniture, fittings and leasehold improvements <sup>(1)</sup>	10 to 20%
Equipment	33 to 50%
Infrastructure assets	5 to 20%
Aviation	5.5 to 8%
Meters	5 to 10%
Rail cars	2 to 3%
Other operating lease assets	2 to 50%

<sup>(1)</sup> 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.

Gain and loss 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 loss. 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 accumulated impairment loss. Amortisation is calculated using the straight-line method to allocate the cost of management rights over the estimated useful life, usually a period not exceeding 20 years.

Customer and servicing contracts acquired with a finite useful life are carried at cost less accumulated amortisation and accumulated impairment loss. 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 loss.

#### 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. Cost incurred on software maintenance is expensed as incurred.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 1

### Summary of significant accounting policies continued

#### 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 (see Note 3 – Segment reporting) and assessed for impairment on a regional legal entity operating group basis.

#### (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 borrowing 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) Supplemental rent, maintenance liability and end of lease compensation

Under certain leases, the Consolidated Entity requires lessees to make regular additional rent payments based on aircraft utilisation. These payments are typically calculated on the basis of hourly utilisation, calendar time or the number of cycles operated at an agreed rate specified in the lease. These payments are recorded as supplemental rent revenue.

At the beginning and throughout the term of each lease, the Consolidated Entity estimates the maintenance liability for Major Maintenance Events (MMEs) which are expected to occur during the lease and accrues for this over the same term. Management determines this estimate based on quantitative and qualitative information including aircraft utilisation, area of operation, costs and timing of MMEs. Maintenance liabilities are recognised separately and disclosed in Note 21 – Other liabilities.

In certain circumstances, the Consolidated Entity agrees to an alternative mechanism to supplemental rent known as end of lease compensation. Under an end of lease compensation mechanism, the Consolidated Entity accrues the expected lessee's compensation for the use of the aircraft over the term of the lease and agrees to defer the receipt of this compensation until the lease end.

#### (xx) 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

Provision for dividends to be paid by the Company is recognised on the statement of financial position as a liability and a reduction in retained earnings when the dividend has been declared.

#### (xxi) 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.



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## (xxii) 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 32 – 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.

## (xxiii) Cash and cash equivalents

Cash and cash equivalents comprise of:

- 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.

## (xxiv) 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.

## (xxv) 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.

## (xxvi) 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).

## (xxvii) 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.

## (xxviii) 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.

## (xxix) Comparatives

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

## (xxx) 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 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Note 2</b>				
<b>Profit for the financial year</b>				
<b>Net interest income</b>				
Interest and similar income received/receivable	5,461	5,009	519	372
Interest expense and similar charges paid/payable	(3,182)	(2,917)	(433)	(375)
Net interest income/(expense)	2,279	2,092	86	(3)
<b>Fee and commission income</b>				
Base fees	1,582	1,388	–	–
Performance fees	714	667	–	–
Mergers and acquisitions, advisory and underwriting fees	962	973	–	–
Brokerage and commissions <sup>(1)</sup>	888	836	–	–
Other fee and commission income	716	875	–	9
Total fee and commission income	4,862	4,739	–	9
<b>Net trading income<sup>(2)</sup></b>				
Equities	597	384	–	6
Commodities <sup>(3)</sup>	1,274	1,039	–	–
Credit, interest rate and foreign exchange products	196	304	22	61
Net trading income	2,067	1,727	22	67
<b>Share of net profits of associates and joint ventures accounted for using the equity method</b>				
	4	5	–	–

(1) Includes life investment and insurance premium of \$297 million (2015: \$253 million) and related expenses of \$187 million (2015: \$164 million).

(2) Included in net trading income are fair value losses of \$162 million (2015: \$32 million loss) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This amount includes \$49 million gain in relation to changes in the fair value of liabilities designated as held at fair value through profit or loss due to changes in the Consolidated Entity's credit risk. 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 except for changes in the Consolidated Entity's credit risk. 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.

(3) Includes transportation and storage costs of \$300 million (2015: \$247 million).

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Note 2</b>				
<b>Profit for the financial year</b> continued				
<b>Other operating income and charges</b>				
Net gain on sale of investment securities available for sale	188	215	–	–
Impairment charge on investment securities available for sale	(121)	(67)	–	–
Net gain on sale of associates and joint ventures	222	109	–	–
Impairment charge on interests in associates and joint ventures	(24)	(121)	–	–
Gain on disposal of operating lease assets	8	231	–	–
Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale	152	203	–	–
Impairment reversal on subsidiaries	–	–	–	1,271
Impairment charge on intangibles and other non-financial assets	(77)	(168)	–	–
Net operating lease income:				
Rental income	1,555	1,067	–	–
Depreciation on operating lease assets (Note 14)	(661)	(440)	–	–
Dividends/distributions received/receivable from:				
Investment securities available for sale	156	102	–	–
Subsidiaries (Note 30)	–	–	4,320	1,273
Collective allowance for credit loss provided for during the financial year:				
Loan assets (Note 11)	(26)	(91)	–	–
Debt investment securities available for sale	–	(13)	–	–
Individually assessed provisions and write-offs:				
Loan assets provided for during the financial year (Note 11)	(470)	(305)	–	–
Other receivables provided for during the financial year	(25)	(30)	–	–
Recovery of loans previously provided for (Note 11)	32	27	–	–
Recovery of other receivables previously provided for	4	4	–	–
Loans written off	(112)	(83)	–	–
Recovery of loans previously written off	23	24	–	–
Other income	99	35	–	–
Total other operating income and charges	923	699	4,320	2,544
<b>Net operating income</b>	<b>10,135</b>	<b>9,262</b>	<b>4,428</b>	<b>2,617</b>

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Note 2</b>				
<b>Profit for the financial year</b> continued				
<b>Employment expenses</b>				
Salary and salary related costs including commissions, superannuation and performance-related profit share	(3,611)	(3,541)	(4)	(4)
Share-based payments <sup>(1)</sup>	(339)	(340)	–	–
Provision for long service leave and annual leave	(7)	(10)	–	–
Total compensation expense	(3,957)	(3,891)	(4)	(4)
Other employment expenses including on-costs, staff procurement and staff training	(287)	(252)	–	–
Total employment expenses	(4,244)	(4,143)	(4)	(4)
<b>Brokerage, commission and trading-related expenses</b>				
Brokerage and other trading-related expenses	(688)	(640)	–	–
Other fee and commission expenses	(204)	(184)	(4)	–
Total brokerage, commission and trading-related expenses	(892)	(824)	(4)	–
<b>Occupancy expenses</b>				
Operating lease rentals	(230)	(231)	–	–
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 14)	(70)	(67)	–	–
Other occupancy expenses	(97)	(76)	–	–
Total occupancy expenses	(397)	(374)	–	–
<b>Non-salary technology expenses</b>				
Information services	(179)	(145)	–	–
Depreciation: equipment (Note 14)	(25)	(16)	–	–
Service provider and other non-salary technology expenses	(383)	(276)	–	–
Total non-salary technology expenses	(587)	(437)	–	–
<b>Other operating expenses</b>				
Professional fees	(351)	(315)	–	–
Auditor's remuneration (Note 41)	(34)	(27)	–	–
Travel and entertainment expenses	(173)	(158)	–	–
Advertising and promotional expenses	(85)	(79)	–	–
Communication expenses	(34)	(33)	–	–
Amortisation of intangibles (Note 16)	(61)	(95)	–	–
Depreciation: infrastructure assets (Note 14)	(18)	(5)	–	–
Other expenses	(244)	(250)	(2)	–
Total other operating expenses	(1,000)	(962)	(2)	–
<b>Total operating expenses</b>	<b>(7,120)</b>	<b>(6,740)</b>	<b>(10)</b>	<b>(4)</b>

<sup>(1)</sup> Includes \$41 million (2015: \$21 million) of share-based payment expense for cash settled awards.

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## Note 3

### Segment reporting

#### (i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclose 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, advisers, 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 Service Groups 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 Service Groups, 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. Break costs are charged to operating groups for the early repayment of term funding.

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 (CEO) or 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 Service Groups*

Central Service Groups recover their costs from operating groups on either a time and effort allocation basis or a fee for service basis. Central Service Groups 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 revenues/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on aggregation.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

Macquarie Asset Management \$m	Corporate and Asset Finance \$m	Banking and Financial Services \$m
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## Note 3

### Segment reporting continued

#### (i) Operating segments continued

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

Net interest and trading (expense)/income	(15)	848	941
Fee and commission income/(expense)	2,504	43	526
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	(16)	7	1
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	(14)	(167)	(43)
Other other operating income and charges	251	932	35
Internal management revenue/(charge)	–	60	4
Net operating income	2,710	1,723	1,464
Total operating expenses	(1,053)	(594)	(1,114)
Profit/(loss) before tax	1,657	1,129	350
Tax expense	–	–	–
(Profit)/loss attributable to non-controlling interests	(13)	1	–
Net profit/(loss) contribution attributable to ordinary equity holders	1,644	1,130	350
Reportable segment assets	6,726	41,005	39,522
Net interest and trading income/(expense)	11	737	825
Fee and commission income/(expense)	2,272	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	2,416	1,594	1,345
Total operating expenses	(966)	(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 attributable to ordinary equity holders	1,450	1,112	285
Reportable segment assets	7,341	30,091	37,282

Macquarie Securities Group \$m	Macquarie Capital \$m	Commodities and Financial Markets \$m	Corporate \$m	Total \$m
Consolidated 2016				
540	16	1,745	271	4,346
694	870	228	(3)	4,862
(1)	(11)	2	22	4
(16)	(187)	(330)	(39)	(796)
8	452	48	(7)	1,719
(5)	15	2	(76)	–
1,220	1,155	1,695	168	10,135
(952)	(709)	(1,119)	(1,579)	(7,120)
268	446	576	(1,411)	3,015
–	–	–	(927)	(927)
–	5	–	(18)	(25)
268	451	576	(2,356)	2,063
22,899	4,578	69,774	12,251	196,755
Consolidated 2015				
289	(24)	1,693	288	3,819
652	860	418	(28)	4,739
–	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	9,262
(854)	(629)	(996)	(1,753)	(6,740)
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



# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 3

### Segment reporting continued

#### (ii) Products and services

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

- **Asset and Wealth Management:** distribution and manufacture of funds management products
- **Financial Markets:** trading in fixed income, equities, currency, commodities and derivative products
- **Capital Markets:** corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/property development, and
- **Lending:** banking activities, mortgages and leasing.

	Asset and Wealth Management \$m	Financial Markets \$m	Capital Markets \$m	Lending \$m	Total \$m
<b>Consolidated 2016</b>					
Revenues from external customers	3,328	3,993	2,402	5,518	15,241
<b>Consolidated 2015</b>					
Revenues from external customers	3,021	3,731	2,032	5,128	13,912

#### (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 <sup>(1)</sup> \$m
<b>Consolidated 2016</b>		
Australia	6,179	1,641
Americas <sup>(2)</sup>	3,989	2,412
Europe, Middle East and Africa <sup>(3)</sup>	3,706	11,274
Asia Pacific	1,367	248
<b>Total</b>	<b>15,241</b>	<b>15,575</b>
<b>Consolidated 2015</b>		
Australia	4,923	2,029
Americas <sup>(2)</sup>	5,384	2,094
Europe, Middle East and Africa <sup>(3)</sup>	2,283	6,383
Asia Pacific	1,322	317
<b>Total</b>	<b>13,912</b>	<b>10,823</b>

(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 investment property.

(2) Included within this balance is external revenue generated in the USA of \$3,829 million (2015: \$4,505 million).

(3) Included within this balance is external revenue generated in the UK of \$2,763 million (2015: \$1,885 million).

#### (iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 4

### Income tax expense

#### (i) Income tax expense

Current tax expense	(876)	(1,056)	(47)	(13)
Deferred tax (expense)/benefit	(51)	157	8	(19)
<b>Total income tax expense</b>	<b>(927)</b>	<b>(899)</b>	<b>(39)</b>	<b>(32)</b>

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

Prima facie income tax expense on operating profit <sup>(1)</sup>	(905)	(757)	(1,325)	(784)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	(21)	(129)	6	4
Impairment reversal on subsidiaries	–	–	–	381
Intra-group dividend	–	–	1,296	382
Other items	(1)	(13)	(16)	(15)
<b>Total income tax expense</b>	<b>(927)</b>	<b>(899)</b>	<b>(39)</b>	<b>(32)</b>

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

Available for sale reserve	21	(61)	–	–
Cash flow hedges	(14)	25	–	–
Share of other comprehensive (expense)/income of associates and joint ventures	(1)	7	–	–
Foreign currency translation reserve	3	(19)	–	–
<b>Total tax benefit/(expense) relating to items of other comprehensive income</b>	<b>9</b>	<b>(48)</b>	<b>–</b>	<b>–</b>

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

Fixed assets	82	(19)	–	–
Intangible assets	12	2	–	–
Investments	5	(171)	–	–
Tax losses	(24)	(1)	13	12
Leasing and financial instruments	(57)	46	–	(50)
Other assets and liabilities	(69)	300	(5)	19
<b>Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities</b>	<b>(51)</b>	<b>157</b>	<b>8</b>	<b>(19)</b>

<sup>(1)</sup> Prima facie income tax on operating profit is calculated at the rate of 30% (2015: 30%).

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

The Group has assessed these and other taxation claims and litigation, including seeking advice where appropriate, and considers that it holds appropriate provisions.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 5

### Dividends and distributions paid or provided for

#### (i) Dividends paid

##### Ordinary share capital and exchangeable shares

2015 Final dividend paid (\$2.00 (2014: \$1.60) per share) <sup>(1),(2)</sup>	667	514	660	508
2016 Interim dividend paid (\$1.60 (2015: \$1.30) per share) <sup>(3)</sup>	541	417	536	413
<b>Total dividends paid (Note 28)</b>	<b>1,208</b>	<b>931</b>	<b>1,196</b>	<b>921</b>

(1) Final dividend paid by the Consolidated Entity includes \$6 million (2015: \$5 million) of dividend equivalent amount paid to Deferred Share Units (DSUs) holders as described in Note 32 – Employee equity participation.

(2) Final dividend paid by the Consolidated Entity includes \$1 million (2015: \$1 million) of dividends paid to the holders of exchangeable shares issued as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. as described in Note 27 – Contributed equity.

(3) Interim dividend paid by the Consolidated Entity includes \$5 million (2015: \$4 million) of dividend equivalent amount paid to DSUs holders as described in Note 32 – Employee equity participation.

The final and interim dividend paid during the financial year was 40% franked based on tax paid at 30% (full year to 31 March 2015: 40% franked on tax paid at 30%). The dividends paid to the 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. 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 27 – 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 2016 final dividend of \$2.40 per fully paid ordinary share, 40% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 4 July 2016 from retained profits at 31 March 2016, but not recognised as a liability at the end of the financial year, is \$815 million (including \$nil 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 27 – 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 2016.

	Consolidated 2016	Consolidated 2015	Company 2016	Company 2015
Cash dividend per ordinary share (distribution of current year profits)	\$4.00	\$3.30	\$4.00	\$3.30
Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2015: 30%)	306	144	306	144

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 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## 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)	13	14	–	–
Distributions provided for	3	4	–	–
<b>Total distributions paid or provided for</b>	<b>16</b>	<b>18</b>	<b>–</b>	<b>–</b>

##### Macquarie Income Preferred Securities

Distributions paid (net of distributions previously provided for)	1	3	–	–
Distributions provided for	–	2	–	–
<b>Total distributions paid or provided for</b>	<b>1</b>	<b>5</b>	<b>–</b>	<b>–</b>

The Macquarie Income Securities (MIS) and Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. MIPS were redeemed in June 2015. Refer to Note 28 – Reserves, retained earnings and non-controlling interests for further details on these instruments.

	Consolidated 2016	Consolidated 2015
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## Note 6

### Earnings per share

	Cents per share	
<b>Basic earnings per share</b>	<b>619.2</b>	<b>502.3</b>
<b>Diluted earnings per share</b>	<b>600.1</b>	<b>484.2</b>
<b>Reconciliation of earnings used in the calculation of basic and diluted earnings per share</b>	<b>\$m</b>	<b>\$m</b>
Profit after income tax	2,088	1,623
(Profit)/loss attributable to non-controlling interests:		
Macquarie Income Securities	(16)	(18)
Macquarie Income Preferred Securities	(1)	(5)
Other non-controlling interests	(8)	4
<b>Total profit attributable to ordinary equity holders of MGL</b>	<b>2,063</b>	<b>1,604</b>
Less profit attributable to participating unvested MEREP awards	(112)	(107)
<b>Total earnings used in the calculation of basic earnings per share</b>	<b>1,951</b>	<b>1,497</b>
Add back:		
Adjusted interest expense on Macquarie Group Capital Notes	35	18
Profit attributable to dilutive participating unvested MEREP awards	79	77
Adjusted interest expense on Macquarie Bank Capital Notes	22	6
Adjusted interest expense on Macquarie Group Capital Notes 2	10	–
Adjusted interest expense on Exchangeable Capital Securities	28	11
<b>Total earnings used in the calculation of diluted earnings per share</b>	<b>2,125</b>	<b>1,609</b>

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

Consolidated  
2016

Consolidated  
2015

## Note 6

### Earnings per share continued

	Number of shares	
<b>Total weighted average number of externally held ordinary shares used in the calculation of basic earnings per share</b>	<b>315,077,420</b>	298,056,554
Weighted average number of shares used in the calculation of diluted earnings per share		
Weighted average fully paid externally held ordinary shares	<b>315,077,420</b>	298,056,554
Potential ordinary shares:		
Weighted average Macquarie Group Capital Notes	<b>9,076,839</b>	7,970,512
Weighted average unvested MEREP awards	<b>16,029,615</b>	18,965,134
Weighted average Macquarie Bank Capital Notes	<b>6,496,151</b>	2,750,600
Weighted average Macquarie Group Capital Notes 2	<b>2,304,516</b>	–
Weighted average Exchangeable Capital Securities	<b>5,134,261</b>	4,546,959
Weighted average options	–	2,720
<b>Total weighted average number of externally held ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share</b>	<b>354,118,802</b>	332,292,479

**Macquarie Group Capital Notes (MCN)** (refer to Note 26 – 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 Group Employee Retained Equity Plan

The Consolidated Entity continues to operate the MEREP in conjunction with remuneration arrangements.

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 3,178,857 (2015: 3,278,643) awards that were vested, lapsed or cancelled during the period. As at 31 March 2016, a further 30,763 (2015: 22,253) 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.

**Macquarie Bank Capital Notes (BCN)** (refer to Note 26 – 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 Group Capital Notes 2 (MCN2)** (refer to Note 26 – 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.

**Exchangeable Capital Securities (ECS)** (refer to Note 26 – Loan capital) have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings per share.

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 7

### Receivables from financial institutions

Cash and other receivables <sup>(1)</sup>	9,196	10,732	–	–
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(2)</sup>	23,932	17,973	–	–
<b>Total receivables from financial institutions</b>	<b>33,128</b>	<b>28,705</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Included within this balance is \$134 million (2015: \$62 million) provided as security over payables to other financial institutions.

<sup>(2)</sup> 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 2016 is \$25,675 million (2015: \$19,800 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

Equities				
Listed	9,774	14,832	–	–
Unlisted	45	63	–	–
Commonwealth government securities	4,857	4,199	–	–
Commodities	4,462	6,035	–	–
Corporate loans and securities	2,220	2,653	–	–
Foreign government securities	1,878	1,377	–	–
Treasury notes	247	1,133	–	–
Other	54	114	–	–
<b>Total trading portfolio assets<sup>(1),(2)</sup></b>	<b>23,537</b>	<b>30,406</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> 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 \$nil (2015: \$915 million).

<sup>(2)</sup> Included within this balance are trading assets of \$5,916 million (2015: \$5,869 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 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Note 9</b>				
<b>Investment securities available for sale</b>				
Debt securities <sup>(1),(2)</sup>	9,078	6,452	–	–
Equity securities				
Listed	1,104	944	–	–
Unlisted	1,274	1,500	–	–
<b>Total investment securities available for sale<sup>(3)</sup></b>	<b>11,456</b>	<b>8,896</b>	<b>–</b>	<b>–</b>

(1) Included within this balance is \$3,842 million (2015: \$1,206 million) of Negotiable Certificates of Deposits (NCD) issued by financial institutions.

(2) Included within this balance is \$479 million (2015: \$941 million) provided as security over payables to financial institutions.

(3) Included within this balance is \$599 million (2015: \$411 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, \$4,553 million (2015: \$2,060 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

## Note 10

### Other assets

Security settlements	5,961	6,722	–	–
Debtors and prepayments	4,169	5,017	14	10
Life investment contracts and other unitholder assets	850	1,059	–	–
Interests in associates held for sale	656	–	–	–
Income tax receivable	463	363	22	128
Investment property	288	250	–	–
Other	109	146	–	–
<b>Total other assets<sup>(1)</sup></b>	<b>12,496</b>	<b>13,557</b>	<b>36</b>	<b>138</b>

(1) Included within this balance is \$388 million (2015: \$133 million) of assets which are provided as security over amounts payable to other financial institutions.

Of the above amounts, \$12,099 million (2015: \$13,161 million) are expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$36 million (2015: \$138 million) by the Company.



## Note 11

### Loan assets held at amortised cost

	Consolidated 2016			Consolidated 2015		
	Gross \$m	Individually assessed provision for impairment \$m	Net \$m	Gross \$m	Individually assessed provision for impairment \$m	Net \$m
Residential mortgage loans	31,378	(14)	31,364	29,432	(14)	29,418
Lease and retail financing	19,480	(55)	19,425	11,586	(57)	11,529
Corporate and commercial lending	18,651	(343)	18,308	19,871	(545)	19,326
Margin money placed	8,526	–	8,526	9,182	–	9,182
Relationship banking mortgages	2,241	–	2,241	2,064	–	2,064
Investment and insurance premium lending	1,023	(1)	1,022	1,676	(5)	1,671
<b>Total loan assets before collective allowance for credit losses</b>	<b>81,299</b>	<b>(413)</b>	<b>80,886</b>	<b>73,811</b>	<b>(621)</b>	<b>73,190</b>
Less collective allowance for credit losses			(520)			(428)
<b>Total loan assets held at amortised cost<sup>(1),(2),(3)</sup></b>			<b>80,366</b>			<b>72,762</b>

(1) Included within this balance are loans of \$18,087 million (2015: \$17,207 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 \$2,924 million (2015: \$2,653 million) pledged as security over issued notes and payables to other external investors and financial institutions.

(3) Loans of \$811 million (2015: \$938 million) are pledged under repurchase agreements.

Of the above amounts, \$26,319 million (2015: \$23,262 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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 11

### Loan assets held at amortised cost continued

#### Individually assessed provisions for impairment

Balance at the beginning of the financial year	621	359	–	–
Provided for during the financial year (Note 2)	470	305	–	–
Loan assets written off, previously provided for	(624)	(66)	–	–
Recovery of loans previously provided for (Note 2)	(32)	(27)	–	–
Foreign exchange movements	(22)	50	–	–
<b>Balance at the end of the financial year</b>	<b>413</b>	<b>621</b>	<b>–</b>	<b>–</b>

#### Individually assessed provisions as a percentage of total gross loan assets

0.51%	0.84%	–	–
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#### Collective allowance for credit losses

Balance at the beginning of the financial year	428	308	–	–
Provided for during the financial year (Note 2)	26	91	–	–
Acquisitions during the financial year	66	14	–	–
Net transfer from/(to) other provisions	5	(4)	–	–
Foreign exchange movements	(5)	19	–	–
<b>Balance at the end of the financial year</b>	<b>520</b>	<b>428</b>	<b>–</b>	<b>–</b>

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. Finance lease receivables do not include retail products such as hire purchase, chattel mortgages and consumer loans.

	Consolidated 2016			Consolidated 2015		
	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	2,068	(198)	1,870	1,998	(209)	1,789
Later than one year and no later than five years	4,223	(435)	3,788	3,783	(407)	3,376
Later than five years	156	(34)	122	242	(73)	169
<b>Total finance lease receivables</b>	<b>6,447</b>	<b>(667)</b>	<b>5,780</b>	<b>6,023</b>	<b>(689)</b>	<b>5,334</b>

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 12

### Impaired financial assets

Debt investment securities available for sale before cumulative impairment loss	131	3	–	–
Cumulative impairment loss	(68)	(3)	–	–
Debt investment securities available for sale	63	–	–	–
Impaired loan assets and other financial assets before individually assessed provisions for impairment	915	1,343	–	–
Less individually assessed provisions for impairment	(483)	(716)	–	–
Loan assets and other financial assets after individually assessed provisions for impairment	432	627	–	–
<b>Total net impaired financial assets</b>	<b>495</b>	<b>627</b>	<b>–</b>	<b>–</b>

## Note 13

### Other financial assets at fair value through profit or loss

Investment securities				
Equity securities	1,109	1,076	–	–
Debt securities	72	404	–	–
Loan assets	468	645	–	–
<b>Total other financial assets at fair value through profit or loss<sup>(1)</sup></b>	<b>1,649</b>	<b>2,125</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Included within this balance is \$398 million (2015: \$611 million) provided as security over payables to financial institutions.

Of the above amounts, \$1,046 million (2015: \$723 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Note 14</b>				
<b>Property, plant and equipment</b>				
<b>Assets for own use</b>				
<b>Land and buildings</b>				
Cost	277	307	–	–
Less accumulated depreciation	(8)	(11)	–	–
Total land and buildings	269	296	–	–
<b>Furniture, fittings and leasehold improvements</b>				
Cost	717	724	–	–
Less accumulated depreciation	(493)	(467)	–	–
Total furniture, fittings and leasehold improvements	224	257	–	–
<b>Equipment</b>				
Cost	133	145	–	–
Less accumulated depreciation	(89)	(102)	–	–
Total equipment	44	43	–	–
<b>Infrastructure assets</b>				
Cost	440	164	–	–
Less accumulated depreciation	(13)	(5)	–	–
Total infrastructure assets	427	159	–	–
<b>Total assets for own use</b>	<b>964</b>	<b>755</b>	<b>–</b>	<b>–</b>
<b>Assets under operating lease</b>				
<b>Aviation</b>				
Cost	10,476	5,473	–	–
Less accumulated depreciation	(1,597)	(947)	–	–
Total aviation	8,879	4,526	–	–
<b>Meters</b>				
Cost	1,081	1,200	–	–
Less accumulated depreciation	(391)	(423)	–	–
Total meters	690	777	–	–
<b>Rail cars</b>				
Cost	840	808	–	–
Less accumulated depreciation	(114)	(64)	–	–
Total rail cars	726	744	–	–
<b>Others</b>				
Cost	407	411	–	–
Less accumulated depreciation	(145)	(134)	–	–
Total others	262	277	–	–
<b>Total assets under operating lease</b>	<b>10,557</b>	<b>6,324</b>	<b>–</b>	<b>–</b>
<b>Total property, plant and equipment</b>	<b>11,521</b>	<b>7,079</b>	<b>–</b>	<b>–</b>

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 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)
<b>Balance at 31 March 2015</b>	<b>296</b>	<b>257</b>	<b>43</b>	<b>159</b>	<b>755</b>
Acquisitions	6	90	28	427	551
Disposals	(10)	(21)	(1)	(152)	(184)
Reclassification	(17)	(35)	–	35	(17)
Foreign exchange movements	–	(3)	(1)	(24)	(28)
Depreciation expense (Note 2)	(6)	(64)	(25)	(18)	(113)
<b>Balance at 31 March 2016</b>	<b>269</b>	<b>224</b>	<b>44</b>	<b>427</b>	<b>964</b>

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 \$3 million (2015: \$5 million).

Assets under operating lease	Aviation \$m	Meters \$m	Rail cars \$m	Other \$m	Total \$m
Balance at 1 April 2014	3,444	784	1,187	309	5,724
Acquisitions	633	104	3	155	895
Disposals	(48)	(45)	(476)	(121)	(690)
Reclassification	(46)	(22)	–	(20)	(88)
Impairments	(24)	–	–	–	(24)
Foreign exchange movements	772	63	71	41	947
Depreciation expense (Note 2)	(205)	(107)	(41)	(87)	(440)
<b>Balance at 31 March 2015</b>	<b>4,526</b>	<b>777</b>	<b>744</b>	<b>277</b>	<b>6,324</b>
Acquisitions	5,122	144	12	73	5,351
Disposals	(25)	(57)	–	(6)	(88)
Reclassification	–	(36)	(1)	(3)	(40)
Impairments	(39)	–	–	(3)	(42)
Foreign exchange movements	(264)	(24)	1	–	(287)
Depreciation expense (Note 2)	(441)	(114)	(30)	(76)	(661)
<b>Balance at 31 March 2016</b>	<b>8,879</b>	<b>690</b>	<b>726</b>	<b>262</b>	<b>10,557</b>

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 \$3,134 million (2015: \$323 million).

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 14

### Property, plant and equipment continued

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

#### Assets under operating lease

Not later than one year	1,134	732	–	–
Later than one year and no later than five years	2,845	1,390	–	–
Later than five years	831	215	–	–
<b>Total future minimum lease payments receivable</b>	<b>4,810</b>	<b>2,337</b>	<b>–</b>	<b>–</b>

## Note 15

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

Loans and investments without provisions for impairment	2,580	1,918	–	–
Loans and investments with provisions for impairment	296	1,090	–	–
Less provisions for impairment	(185)	(680)	–	–
Loans and investments at recoverable amount	111	410	–	–
<b>Total interests in associates and joint ventures accounted for using the equity method<sup>(1),(2)</sup></b>	<b>2,691</b>	<b>2,328</b>	<b>–</b>	<b>–</b>

(1) Included within this balance is \$2,012 million (2015: \$2,159 million) relating to interests in associates and \$679 million (2015: \$169 million) relating to interests in joint ventures.

(2) Financial statements of associates have various reporting dates. There are no associates individually material to the Consolidated Entity.

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

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 16

### Intangible assets

#### Goodwill

At cost	637	690	–	–
Less accumulated impairment loss	(112)	(110)	–	–
Total Goodwill	525	580	–	–

#### Intangible assets with indefinite lives

At Cost	270	300	–	–
Less accumulated impairment loss	–	(7)	–	–
Total intangible assets with indefinite lives	270	293	–	–

#### Customer and servicing contracts

At cost	190	245	–	–
Less accumulated amortisation and impairment loss	(123)	(156)	–	–
Total customer and servicing contracts	67	89	–	–

#### Other identifiable intangible assets

At cost	408	350	–	–
Less accumulated amortisation and impairment loss	(192)	(148)	–	–
Total other identifiable intangible assets	216	202	–	–

<b>Total intangible assets</b>	<b>1,078</b>	<b>1,164</b>	<b>–</b>	<b>–</b>
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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 at their written down value:

	Goodwill \$m	Intangible assets with indefinite lives \$m	Customer and servicing contracts \$m	Other identifiable intangible assets \$m	Total \$m
Balance at 1 April 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)
Foreign exchange movements	106	51	18	14	189
<b>Balance at 31 March 2015</b>	<b>580</b>	<b>293</b>	<b>89</b>	<b>202</b>	<b>1,164</b>
Acquisitions	–	–	–	79	79
Disposals	(39)	(22)	(3)	–	(64)
Impairment	(11)	–	–	(22)	(33)
Amortisation expense (Note 2)	–	–	(22)	(39)	(61)
Foreign exchange movements	(5)	(1)	3	(4)	(7)
<b>Balance at 31 March 2016</b>	<b>525</b>	<b>270</b>	<b>67</b>	<b>216</b>	<b>1,078</b>



# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

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## Note 16

### Intangible assets continued

#### Goodwill and Intangible assets with indefinite lives:

Goodwill and Intangible assets with indefinite lives are tested for impairment by comparing the carrying amount of cash generating unit or a group of cash generating units (CGU) to the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Intangible assets with indefinite lives are considered indefinite as the underlying income stream is related to the management of funds that have no defined end date and are expected to operate perpetually.

Fair value less costs to sell is estimated with market based approaches using revenues, earnings and assets under management multiples based on a trading statistics of companies deemed comparable and publicly available information relevant to the business.

Value in use is calculated using pre-tax cashflow projections for fee revenue, net income and operating expenses. Forecasts are extrapolated using a growth rate and discounted using a discount rate incorporating market risk determinants, adjusted for specific risks related to the CGU and the environment in which it operates.

Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 17

### Investments in subsidiaries

Investments at cost without provisions for impairment	–	–	13,379	12,047
Investments at cost with provisions for impairment	–	–	17,206	14,070
Less provisions for impairment	–	–	(10,246)	(10,246)
Investments at recoverable amount <sup>(1)</sup>	–	–	6,960	3,824
<b>Total investments in subsidiaries</b>	–	–	<b>20,339</b>	<b>15,871</b>

<sup>(1)</sup> 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:

- Macquarie Financial Limited/Financiere Macquarie Ltee. (Canada)
- Macquarie Energy LLC (United States)
- Delaware Management Holdings, Inc. (United States)
- Delaware Investments Management Company, LLC (United States)
- Delaware Investment Advisers (United States)
- Delaware Management Company (United States)
- Macquarie Corporate Holdings Pty Limited (Australia)
- Macquarie Group Employee Retained Equity Plan (MEREP Trust) (Australia)
- Macquarie Affiliated Managers Holdings (USA) Inc. (United States)
- Macquarie America Holdings Inc. (United States)
- Macquarie FG Holdings Inc. (United States)
- Macquarie FICC Holdings USA Inc. (United States)
- Macquarie Services (USA) LLC (United States)
- Macquarie Alternative Assets Management Limited (Australia)
- Macquarie Capital (Singapore) Pte. Limited (Singapore)
- Macquarie Infrastructure Management (USA) Inc (United States)
- Macquarie Capital Limited (Hong Kong)
- Macquarie Capital Securities (Singapore) Pte. Limited (Singapore)
- Macquarie Infrastructure Management (Asia) Pty Limited (Australia)
- Macquarie Group Services Australia Pty Limited (Australia)
- Macquarie Energy North America Trading Inc. (United States)
- Macquarie Americas Holdings Pty Limited (Australia)
- Macquarie Agricultural Funds Management Limited (Australia)
- Macquarie Funding Holdings LLC (United States)
- Macquarie Trading Services Inc (United States)
- Macquarie Securities South Africa Limited (South Africa)
- Macquarie Corporate International Holdings Pty Limited (Australia)
- Macquarie Capital (Australia) Limited (Australia)
- Macquarie B.H. Pty Limited (Australia)
- Macquarie Financial Holdings Pty Limited (Australia)<sup>(2)</sup>
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Infrastructure And Real Assets Inc. (United States)
- Macquarie Aerospace Limited (Bermuda)
- Macquarie Bank Limited (Australia)
- Macquarie Infrastructure And Real Assets Investments Limited (United Kingdom)
- Macquarie Alpine Inc. (United States)
- Macquarie US Gas Supply LLC (United States)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Capital (Europe) Limited (United Kingdom)
- Macquarie Corporate And Asset Finance Limited (Australia)
- Meadowlark Capital LLC (United States)
- Macquarie Capital (USA) Inc (United States)
- Macquarie Equities (US) Holdings Pty. Limited (Australia)
- Macquarie Holdings (U.S.A.) Inc. (United States)
- Macquarie Infrastructure Funds Management Pty Limited (Australia)
- MIHI LLC (United States)
- Macquarie International Holdings Limited (United Kingdom)
- Macquarie Internationale Investments Limited (United Kingdom)
- Macquarie Investment Management Limited (Australia)
- Macquarie Infrastructure And Real Assets (Europe) Limited (United Kingdom)
- Macquarie Leasing NSW Pty Limited (Australia)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Funds Management Holdings Pty Limited (Australia)
- Macquarie Affiliated Managers (USA) Inc. (United States)

<sup>(2)</sup> On 15 April 2015, the Company, Macquarie Bank Limited, Macquarie B.H. Pty Limited (MBHPL) and Macquarie Financial Holdings Pty Limited (MFHPL) 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 MFHPL and its subsidiaries (MFHPL Group).

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

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## Note 17

### Investments in subsidiaries continued

On settlement of the Restructure Deed the Company received dividends of \$3,130 million from MBHPL, the holding company of MBL and contributed by an ordinary share capital contribution \$3,130 million to MFHPL. MFHPL has applied this contribution of ordinary share capital towards the acquisition of MIM.

The country of incorporation has been stated in brackets next to the name of the entity.

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all material entities is 100%.

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 consolidated entities to 31 March:

- 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.
- Cefiro Capital S.A.P.I de C.V. SOFOM E.N.R.
- Macquarie Gas de Sonora S. De R.L de C.V.
- Comercializadora Energia de la Reforma S. de R.L. de C.V

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 18

### Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

Other assets and liabilities	973	1,011	42	40
Tax losses	498	517	32	19
Fixed assets	172	106	–	–
Investments	145	191	–	–
Leasing and financial instruments	34	58	–	–
Intangibles	7	19	–	–
Set-off of deferred tax liabilities	(979)	(1,028)	–	–
<b>Total deferred tax assets</b>	<b>850</b>	<b>874</b>	<b>74</b>	<b>59</b>
Leasing and financial instruments	(904)	(816)	–	–
Other asset and liabilities	(306)	(259)	–	–
Investments	(181)	(246)	–	–
Intangible assets	(130)	(154)	–	–
Fixed assets	(1)	(17)	–	–
Set-off of deferred tax assets	979	1,028	–	–
<b>Total deferred tax liabilities</b>	<b>(543)</b>	<b>(464)</b>	<b>–</b>	<b>–</b>
<b>Net deferred tax assets</b>	<b>307</b>	<b>410</b>	<b>74</b>	<b>59</b>

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 \$201 million (2015: \$104 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable. Included in this amount are gross losses of \$49 million (2015: \$49 million) that will expire in 1-2 years, \$64 million (2015: \$65 million) that will expire in 2-5 years, \$55 million (2015: \$51 million) that will expire in 5-10 years and \$182 million (2015: \$192 million) that will expire in 10-20 years. \$455 million (2015: \$287 million) of gross losses do not expire and can be carried forward indefinitely.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Note 19</b>				
<b>Trading portfolio liabilities</b>				
Listed equity securities	4,310	4,525	–	–
Foreign government securities	649	336	–	–
Corporate securities	71	309	–	–
Commodities	–	125	–	–
<b>Total trading portfolio liabilities</b>	<b>5,030</b>	<b>5,295</b>	<b>–</b>	<b>–</b>

## Note 20

### Deposits

Interest bearing deposits				
Call	32,756	30,308	–	–
Term	8,860	8,146	–	18
Client monies, segregated fund and margin money held	9,091	7,728	–	–
Non-interest bearing call deposits	1,538	1,204	–	–
<b>Total deposits</b>	<b>52,245</b>	<b>47,386</b>	<b>–</b>	<b>18</b>

## Note 21

### Other liabilities

Due to brokers and customers	5,855	6,790	–	–
Accrued charges, income received in advance and other	3,033	2,900	55	66
Creditors	2,203	4,097	5	–
Maintenance	772	609	–	–
Life investment contracts and other unitholder liabilities	771	1,004	–	–
Income tax payable	469	650	138	2
<b>Total other liabilities</b>	<b>13,103</b>	<b>16,050</b>	<b>198</b>	<b>68</b>

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

Cash collateral on securities lent and repurchase agreements	9,061	12,018	–	–
OECD banks	13,690	4,691	2,850	2,566
Other	1,109	1,936	–	–
<b>Total payables to financial institutions</b>	<b>23,860</b>	<b>18,645</b>	<b>2,850</b>	<b>2,566</b>

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 23

### Debt issued at amortised cost

Debt issued at amortised cost <sup>(1)</sup>	63,685	61,463	6,425	6,179
<b>Total debt issued at amortised cost</b>	<b>63,685</b>	<b>61,463</b>	<b>6,425</b>	<b>6,179</b>

<sup>(1)</sup> Included within this balance are amounts payable to SPE note holders and debt holders of \$14,939 million (2015: \$15,952 million).

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

### Reconciliation of debt issued at amortised cost by major currency:

(In Australian dollar equivalent):

United States dollars	33,185	32,992	5,868	5,639
Australian dollars	15,903	15,174	7	22
Euro	7,295	3,996	–	–
Great British pounds	3,055	3,519	–	–
Swiss franc	2,013	1,715	–	–
Japanese yen	1,275	1,296	550	518
Yuan renminbi	230	140	–	–
Hong Kong dollars	224	205	–	–
Norwegian krone	164	162	–	–
Canadian dollars	129	1,949	–	–
Korean won	104	109	–	–
South African rand	69	142	–	–
Singapore dollars	39	56	–	–
Others	–	8	–	–
<b>Total by currency</b>	<b>63,685</b>	<b>61,463</b>	<b>6,425</b>	<b>6,179</b>

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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 24

### Other financial liabilities at fair value through profit or loss

Structured notes <sup>(1),(2)</sup>	2,672	1,626	–	–
<b>Total other financial liabilities at fair value through profit or loss</b>	<b>2,672</b>	<b>1,626</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates or other assets.

<sup>(2)</sup> Cumulative gains of \$49 million have been recognised within profit and loss due to changes in the Consolidated Entity's credit risk (Refer Note 2).

### Reconciliation of other financial liabilities at fair value through profit or loss by major currency:

(In Australian dollar equivalent):

United States dollars	2,113	1,067	–	–
South African rand	420	389	–	–
Australian dollars	60	31	–	–
Euro	50	77	–	–
Others	29	62	–	–
<b>Total by currency</b>	<b>2,672</b>	<b>1,626</b>	<b>–</b>	<b>–</b>



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## Note 25

### 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
- 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
- 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% at both Level 1 and Level 2, with at least 6% of this capital in the form of Tier 1 capital and at least 4.5% 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 financial year.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 26

### 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 Group Capital Notes (MCN)

On 7 June 2013, the Company issued 6 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 2016 would be 9,076,839 (31 March 2015: 7,970,512). 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% 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.

#### Macquarie Group Capital Notes 2 (MCN2)

On 18 December 2015, the Company issued 5.3 million MCN2 at face value of \$100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 17 March 2021, 17 September 2021 or 17 March 2022 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

MCN2 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 18 March 2024. The MCN2 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, MCN2 Holders will receive up to approximately \$101 worth of ordinary shares per MCN2 held. The total number of ordinary shares that would be issued if MCN2 were exchanged at 31 March 2016 would be 8,032,883. The maximum number of ordinary shares that can be issued on an exchange is 32,644,295.

The MCN2 pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 5.15% per annum, adjusted for franking credits, paid semi-annually. If interest is not paid on the MCN2, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

#### Macquarie Bank Capital Notes (BCN)

On 8 October 2014, MBL 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 2016 would be 6,496,150 (31 March 2015: 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% 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.

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## Note 26

### Loan capital continued

#### Exchangeable Capital Securities (ECS)

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% 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%, 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% 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 2016 would be 5,134,261 (31 March 2015: 4,546,959). 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 2016, the remaining principal liability related to the ECS was \$US250 million (31 March 2015: \$US250 million).

#### Macquarie Preferred Membership Interests (Macquarie PMI)

On 2 December 2010, Macquarie PMI LLC, a subsidiary of the Company, issued \$US400 million of \$US denominated Preferred Membership Interests. These instruments were non-cumulative and unsecured equity interests in the issuer. These instruments were redeemed during the financial year.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 26

### Loan capital continued

#### Maturity and currency profiles of loan capital instruments

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

Less than 12 months	100	104	12	11
30 May 2019	3	–	–	–
21 September 2020	754	953	–	–
7 April 2021	1,456	1,461	–	–
10 June 2025	1,037	–	–	–

Instruments with conditional repayment obligations:

MCN	600	600	600	600
MCN2	531	–	531	–
BCN	430	430	–	–
ECS	326	329	–	–
Macquarie PMI	–	526	–	–

	5,237	4,403	1,143	611
Less directly attributable issue cost	(28)	(19)	(17)	(8)
<b>Total loan capital<sup>(1)</sup></b>	<b>5,209</b>	<b>4,384</b>	<b>1,126</b>	<b>603</b>

#### Reconciliation of loan capital by major currency:

(In Australian dollar equivalent)

United States dollars	2,889	2,382	–	–
Australian dollars	1,573	1,042	1,143	611
Euro	775	979	–	–

	5,237	4,403	1,143	611
Less directly attributable issue cost	(28)	(19)	(17)	(8)
<b>Total loan capital<sup>(1)</sup></b>	<b>5,209</b>	<b>4,384</b>	<b>1,126</b>	<b>603</b>

<sup>(1)</sup> 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 financial 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	Consolidated 2016 Number of shares	Consolidated 2015 Number of shares	Consolidated 2016 \$m	Consolidated 2015 \$m
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## Note 27

### Contributed equity

#### Ordinary share capital<sup>(1)</sup>

Opening balance of fully paid ordinary shares		333,457,777	321,074,750	6,901	6,075
Issue of shares on exercise of options		–	67,664	–	4
Issue of shares on exercise of MEREP awards		12,961	28,072	1	1
Issue of shares pursuant to Dividend Reinvestment Plan (DRP) at \$nil (2015: \$57.79) per share		–	2,967,273	–	171
Issue of shares pursuant to Employee Share Plan (ESP) at \$82.13 (2015: \$59.27) per share		13,284	16,080	1	1
Issue of shares pursuant to Institutional Private Placement at \$80.00 (2015: \$73.50) per share, net of transaction costs		5,000,000	6,802,722	393	500
Issue of shares pursuant to Share Purchase Plan (SPP) at \$78.40 (2015: \$73.50) per share		1,747,944	2,312,714	137	170
Issue of shares on retraction of exchangeable shares		70,423	188,502	5	10
For employee MEREP awards that have vested and forfeited, during the financial year:					
Transfer of MEREP expense from share-based payments reserve	28	–	–	271	242
Transfer of additional deferred tax benefit on MEREP expense from share-based payments reserve	28	–	–	55	31
Transfer from treasury shares for shares withdrawn		–	–	(298)	(285)
Transfer from share-based payment capital reduction reserve	28	–	–	(20)	(19)
<b>Closing balance of fully paid ordinary shares</b>		<b>340,302,389</b>	<b>333,457,777</b>	<b>7,446</b>	<b>6,901</b>

<sup>(1)</sup> Ordinary shares have no par value.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Notes	Company 2016 Number of shares	Company 2015 Number of shares	Company 2016 \$m	Company 2015 \$m
<b>Note 27</b>					
<b>Contributed equity</b> continued					
<b>Ordinary share capital<sup>(1)</sup></b>					
Opening balance of fully paid ordinary shares		333,457,777	321,074,750	9,637	8,841
Issue of shares on exercise of options		–	67,664	–	4
Issue of shares on exercise of MEREP awards		12,961	28,072	1	1
Issue of shares pursuant to Dividend Reinvestment Plan (DRP) at \$nil (2015: \$57.79) per share		–	2,967,273	–	171
Issue of shares pursuant to Employee Share Plan (ESP) at \$82.13 (2015: \$59.27) per share		13,284	16,080	1	1
Issue of shares pursuant to Institutional Private Placement at \$80.00 (2015: \$73.50) per share, net of transaction costs		5,000,000	6,802,722	393	500
Issue of shares pursuant to Share Purchase Plan (SPP) at \$78.40 (2015: \$73.50) per share		1,747,944	2,312,714	137	170
Issue of shares on retraction of exchangeable shares		70,423	188,502	6	11
For employee MEREP awards that have vested and forfeited, during the financial year:					
Transfer of MEREP expense from share-based payments reserve	28	–	–	271	242
Transfer of additional deferred tax on MEREP expense from share-based payments reserve	28	–	–	7	–
Transfer from treasury shares for shares withdrawn		–	–	(298)	(285)
Transfer from share-based payment capital reduction reserve	28	–	–	(20)	(19)
<b>Closing balance of fully paid ordinary shares</b>		<b>340,302,389</b>	<b>333,457,777</b>	<b>10,135</b>	<b>9,637</b>

<sup>(1)</sup> Ordinary shares have no par value.

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 27

### Contributed equity continued

#### Treasury shares

Opening balance of 23,244,122 (1 April 2014: 26,011,106) treasury shares <sup>(1)</sup>	(971)	(990)	(970)	(989)
Purchase of 4,746,421 (31 March 2015: 4,461,905) shares for employee MEREP awards	(383)	(266)	(383)	(266)
Transfer of 7,611,890 (31 March 2015: 7,228,889 ) shares withdrawn/exercised for vested MEREP awards	298	285	298	285
Sale of 324,774 (31 March 2015: nil) shares for cash settled awards by MEREP Trust and the life business	20	–	17	–
Purchase of 1,423,673 (31 March 2015: 1,049,203) shares for DRP share issue by the Consolidated Entity	(116)	(63)	–	–
Allocation of 1,423,673 (31 March 2015: 1,049,203) shares under DRP scheme by the Consolidated Entity	116	63	–	–
<b>Closing balance of 20,053,879 (31 March 2015: 23,244,122) treasury shares<sup>(1)</sup></b>	<b>(1,036)</b>	<b>(971)</b>	<b>(1,038)</b>	<b>(970)</b>

<sup>(1)</sup> 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 32 – Employee equity participation.

#### Exchangeable shares<sup>(1)</sup>

Opening balance of 245,455 (1 April 2014: 447,562) exchangeable shares	17	27	–	–
Retraction of 74,609 (31 March 2015: 199,679) exchangeable shares	(5)	(10)	–	–
Cancellation of nil (31 March 2015: 2,428) exchangeable shares	–	–	–	–
<b>Closing balance of 170,846 (31 March 2015: 245,455) exchangeable shares</b>	<b>12</b>	<b>17</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> 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 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Contributed equity</b>	<b>6,422</b>	<b>5,947</b>	<b>9,097</b>	<b>8,667</b>



# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Note 28</b>				
<b>Reserves, retained earnings and non-controlling interests</b>				
<b>Reserves</b>				
<b>Foreign currency translation reserve</b>				
Balance at the beginning of the financial year	555	(313)	–	–
Exchange differences on translation of foreign operations, net of hedge and tax	(178)	868	–	–
<b>Balance at the end of the financial year</b>	<b>377</b>	<b>555</b>	<b>–</b>	<b>–</b>
<b>Available for sale reserve</b>				
Balance at the beginning of the financial year	443	385	–	–
Revaluation movement for the financial year, net of tax	152	166	–	–
Transfer to income statement on impairment, net of tax	86	46	–	–
Transfer to income statement on realisation, net of tax	(126)	(154)	–	–
<b>Balance at the end of the financial year</b>	<b>555</b>	<b>443</b>	<b>–</b>	<b>–</b>
<b>Share-based payments reserve</b>				
Balance at the beginning of the financial year	795	683	707	631
MEREP expense for the financial year	298	319	–	–
Additional deferred tax benefit on MEREP expense	4	67	9	–
MEREP issued to employees of subsidiaries (Note 30)	–	–	298	319
Transfer to other liabilities on vesting or reclassification of MEREP awards <sup>(1)</sup>	(17)	(1)	(17)	(1)
Transfer to share capital on vesting of MEREP awards	(271)	(242)	(271)	(242)
Transfer of additional deferred tax benefit to share capital on vesting of MEREP awards	(55)	(31)	(7)	–
<b>Balance at the end of the financial year</b>	<b>754</b>	<b>795</b>	<b>719</b>	<b>707</b>
<b>Share-based payments capital reduction reserve</b>				
Balance at the beginning of the financial year	(53)	(72)	(53)	(72)
Transfer to share capital related to vested and forfeited awards	20	19	20	19
<b>Balance at the end of the financial year</b>	<b>(33)</b>	<b>(53)</b>	<b>(33)</b>	<b>(53)</b>
<b>Cash flow hedging reserve</b>				
Balance at the beginning of the financial year	(84)	(28)	–	–
Revaluation movement for the financial year, net of tax	(34)	(56)	–	–
<b>Balance at the end of the financial year</b>	<b>(118)</b>	<b>(84)</b>	<b>–</b>	<b>–</b>
<b>Share of reserves of interests in associates and joint ventures accounted for using the equity method</b>				
Balance at the beginning of the financial year	–	14	–	–
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	1	(14)	–	–
<b>Balance at the end of the financial year</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total reserves at the end of the financial year</b>	<b>1,536</b>	<b>1,656</b>	<b>686</b>	<b>654</b>
<b>Retained earnings</b>				
Balance at the beginning of the financial year	6,306	5,637	6,864	5,204
Profit attributable to ordinary equity holders of MGL	2,063	1,604	4,379	2,581
Dividends paid on ordinary share capital (Note 5)	(1,208)	(931)	(1,196)	(921)
Loss on change in ownership interest	(3)	(4)	–	–
<b>Balance at the end of the financial year</b>	<b>7,158</b>	<b>6,306</b>	<b>10,047</b>	<b>6,864</b>

<sup>(1)</sup> Represents vested MEREP awards settled through cash.

## Note 28

### Reserves, retained earnings and non-controlling interests continued

#### Non-controlling interests

##### Macquarie Income Securities

The MIS issued by MBL, a subsidiary of the company, were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7% per annum (2015: 1.7% 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. £307.5 million of MIPS were cancelled in September 2009 with a further £42.5 million redeemed in June 2015.

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.

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
<b>Macquarie Income Securities</b>				
4,000,000 Macquarie Income Securities of \$100 each	400	400	–	–
Less transaction costs for original placement	(9)	(9)	–	–
<b>Total Macquarie Income Securities</b>	<b>391</b>	<b>391</b>	<b>–</b>	<b>–</b>
<b>Macquarie Income Preferred Securities</b>				
Proceeds on issue of Macquarie Income Preferred Securities	–	109	–	–
Less issue costs	–	(1)	–	–
	–	108	–	–
Foreign currency translation reserve	–	(26)	–	–
<b>Total Macquarie Income Preferred Securities</b>	<b>–</b>	<b>82</b>	<b>–</b>	<b>–</b>
<b>Other non-controlling interests<sup>(1)</sup></b>				
Share capital and partnership interests	212	18	–	–
Foreign currency translation reserve	(11)	3	–	–
Retained earnings	(44)	(7)	–	–
<b>Total other non-controlling interests</b>	<b>157</b>	<b>14</b>	<b>–</b>	<b>–</b>
<b>Total non-controlling interests</b>	<b>548</b>	<b>487</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Other non-controlling interests represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Group.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

	Consolidated 2016 \$m	Consolidated 2015 \$m	Company 2016 \$m	Company 2015 \$m
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## Note 29

### 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:

Receivables from financial institutions <sup>(1)</sup>	9,110	10,681	–	–
Trading portfolio assets <sup>(2)</sup>	288	1,155	–	–
Debt investment securities available for sale <sup>(3)</sup>	1,491	1,129	–	–
Loan assets held at amortised cost <sup>(4)</sup>	3,431	4,008	–	–
<b>Cash and cash equivalents at the end of the financial year<sup>(5)</sup></b>	<b>14,320</b>	<b>16,973</b>	<b>–</b>	<b>–</b>

<sup>(1)</sup> Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.

<sup>(2)</sup> Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.

<sup>(3)</sup> Includes short-term debt securities.

<sup>(4)</sup> Includes amounts due from clearing houses.

<sup>(5)</sup> Cash and cash equivalents include \$5,559 million (2015: \$5,643 million) in escrow accounts which are restricted for use and held by collateralised securitisation vehicles in segregated deposit fund.

#### Reconciliation of profit after income tax to net cash flows from/(used in) operating activities

Profit after income tax	2,088	1,623	4,379	2,581
Adjustments to profit after income tax:				
Depreciation and amortisation	835	623	–	–
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	452	(566)	(14)	–
Provision and impairment charge on financial and non-financial assets	819	847	–	–
Inspecie distribution received	–	–	(2,121)	–
Impairment reversal on investment in subsidiary	–	–	–	(1,271)
Interest on available for sale financial assets	(11)	(299)	–	–
Net gain on sale of investment securities available for sale, associates and joint ventures and operating lease assets	(289)	(745)	–	–
Share-based payments expense	298	319	–	–
Capitalisation of development costs of intangibles	(79)	(87)	–	–
Share of net profit of associates and joint ventures accounted for using the equity method	(4)	(5)	–	–
Changes in assets and liabilities:				
Change in amount due from subsidiaries under tax funding agreement	–	–	96	390
Change in values of associates due to dividends received	70	261	–	–
Change in fees and non-interest income receivable	95	(79)	–	–
Change in fees and commissions payable	57	25	–	–
Change in tax balances	(251)	721	(176)	(242)
Change in provisions for employee entitlements	(1)	14	–	–
Change in lease assets, net of depreciation, foreign exchange and impairment	(711)	(831)	–	–
Change in loan assets	(1,013)	(10,530)	191	(1,339)
Change in margin money placed	314	(3,064)	–	–
Change in debtors, prepayments, accrued charges and creditors	(1,126)	1,614	(12)	7
Change in net trading portfolio assets and liabilities and net derivative financial instruments	(3,850)	(14,337)	(7)	–
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	15,130	22,083	514	1,167
<b>Net cash flows from/(used in) operating activities</b>	<b>12,823</b>	<b>(2,413)</b>	<b>2,850</b>	<b>1,293</b>

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## Note 30

### 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. Due from subsidiaries in the Company's separate statement of financial position includes the amount of current tax asset assumed by MGL as the head entity and amount receivable by the Company under the tax funding agreement of the tax consolidated group.

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

	<b>Consolidated 2016 \$m</b>	Consolidated 2015 \$m	<b>Company 2016 \$m</b>	Company 2015 \$m
Interest income received/receivable	–	–	<b>514</b>	333
Interest expense paid/payable	–	–	<b>(28)</b>	(24)
Share-based payments to employees of subsidiaries (Note 28)	–	–	<b>(298)</b>	(319)
Dividends and distributions (Note 2)	–	–	<b>4,320</b>	1,273
The following balances with subsidiaries were outstanding as at financial year end <sup>(1)</sup> :				
Amounts receivable	–	–	<b>10,853</b>	10,361
Amounts payable	–	–	<b>(873)</b>	(810)

<sup>(1)</sup> As described in Note 1(xxii) – Summary of significant accounting policies, the Company has recognised a liability as at 31 March 2016 of \$353 million (2015: \$266 million) for amounts received in advance as at 31 March 2016 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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 30

### 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 that are equity accounted are eliminated where they are unrealised, to the extent of ownership interests held by the Consolidated Entity, in the consolidated income statement.

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

	<b>Consolidated 2016 \$m</b>	Consolidated 2015 \$m	<b>Company 2016 \$m</b>	Company 2015 \$m
Interest income received/receivable	125	22	–	–
Fee and commission income	1,246	1,081	–	–
Brokerage, commission and trading-related expenses	(10)	(7)	–	–
Dividends and distributions <sup>(1)</sup>	70	272	–	–
Other expense	(5)	–	–	–

<sup>(1)</sup> 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):

	<b>Consolidated 2016 \$m</b>	Consolidated 2015 \$m	<b>Company 2016 \$m</b>	Company 2015 \$m
Amounts receivable	1,531	1,824	–	–
Amounts payable	(10)	(125)	–	–

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

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## Note 31

### Key Management Personnel disclosure

#### Key Management Personnel

The following persons were Directors of the Company during the financial years ended 31 March 2016 and 31 March 2015, unless indicated.

#### Executive Voting Director

N.W. Moore<sup>(1)</sup> Managing Director and CEO

#### Non-Executive Directors

H.K. McCann AM<sup>(2)</sup> Non-Executive Chairman

P.H. Warne<sup>(3)</sup>

G.R. Banks AO

G.M. Cairns<sup>(4)</sup>

M.J. Coleman

P.A. Cross

D.J. Grady AM

M. J. Hawker AM

N.M. Wakefield Evans

#### Former Non-Executive Directors

P.M. Kirby (retired on 24 July 2014)

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 2016 and 31 March 2015, unless otherwise indicated.

#### Current Executives<sup>(1)</sup>

S.D. Allen	Head of RMG
T.C. Bishop	Head of Macquarie Capital
B.A. Brazil	Co-Head of CAF <sup>(5)</sup>
A.J. Downe	Head of CFM
G.A. Farrell	Co-Head of CAF
M. McLaughlin	Country Head, United States of America
M.J. Reemst	Macquarie Bank CEO <sup>(5)</sup>
N. Sorbara	Head of COG
P.C. Upfold	CFO and Head of FMG <sup>(5)</sup>
S. Vrcelj	Head of MSG
G.C. Ward	Deputy Managing Director and Head of BFS
S. Wikramanayake	Head of MAM

The principles of compensation for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report on pages 88 to 93.

(1) The CEO and all current Executives are members of the Consolidated Entity's Executive Committee as at 6 May 2016.

(2) H.K. McCann retired as Chairman and as a Voting Director on 31 March 2016.

(3) P.H. Warne replaced Mr McCann as Chairman effective on Mr McCann's retirement.

(4) Effective from 1 November 2014.

(5) Effective from 1 July 2014.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 31

### 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			Total remuneration
	Salary and fees (including superannuation)	Performance related remuneration <sup>(1)</sup>	Other benefits		Restricted profit share including earnings on restricted profit share <sup>(2)</sup>	Equity awards including shares <sup>(3)</sup>	PSUs <sup>(4)</sup>	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Executive Remuneration</b>								
2016	9,855,167	40,496,453	–	50,351,620	10,807,318	32,742,061	22,380,977	116,281,976
2015	9,068,321	40,174,754	–	49,243,075	15,552,907	27,094,870	15,958,182	107,849,034
<b>Non-Executive Remuneration</b>								
2016	3,694,000	–	12,000	3,706,000	–	–	–	3,706,000
2015	3,574,418	–	27,900	3,602,318	–	–	–	3,602,318

<sup>(1)</sup> The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.

<sup>(2)</sup> 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 financial years.

<sup>(3)</sup> The current year amortisation for retained profit share calculated as described in Note 1(xxii) – Summary of significant accounting policies.

<sup>(4)</sup> The current year amortisation for PSUs calculated as described in Note 1(xxii) – Summary of significant accounting policies. Adjustments were made during the current and prior financial 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 received on withdrawal from MEREP	Other changes <sup>(1)</sup>	Number of shares held by former KMP at date of resignation/retirement (prior to 31 March)	Number of shares held at 31 March
2016	2,230,072	–	1,012,208	(498,664)	–	2,743,616
2015	1,978,695	43,796	607,523	(356,042)	(43,900)	2,230,072

<sup>(1)</sup> Includes on-market acquisitions and disposals.



## Note 31

### Key Management Personnel disclosure continued

#### MEREP RSU Awards of Key Management Personnel and their related parties<sup>(1)</sup>

The following tables set out details of the MEREP RSU awards held during the financial 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 Appendix 3 of the Remuneration Report, contained in the Directors' Report from pages 94 to 96. Further details in relation to the MEREP RSU awards are disclosed in Note 32 – 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 <sup>(1)</sup>	Vested RSU awards withdrawn from the MEREP during the financial year <sup>(2)</sup>	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
2016	3,078,344	–	533,365	(589,582)	–	3,022,127
2015	2,394,033	681,667	448,564	(445,920)	–	3,078,344

<sup>(1)</sup> 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 2015.

<sup>(2)</sup> Vested RSUs transferred to the KMP's shareholding.

#### MEREP PSU Awards of Key Management Personnel and their related parties<sup>(1)</sup>

The following tables set out details of MEREP PSU awards held during the financial 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 97 to 98. Further details in relation to the MEREP PSU awards are disclosed in Note 32 – Employee equity participation.

	Number of PSU awards held at 1 April	PSU awards granted during the financial year <sup>(1)</sup>	Vested PSU awards exchanged during the financial year	PSU awards not able to be exercised due to performance hurdles not met <sup>(2)</sup>	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 <sup>(3)</sup>
2016	1,704,414	409,866	(422,626)	(87,224)	–	1,604,430
2015	1,538,385	475,608	(161,603)	(147,976)	–	1,704,414

<sup>(1)</sup> 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 2015.

<sup>(2)</sup> Performance hurdles for PSU awards issued on or after 17 December 2009 and vesting at 1 July 2015 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.

<sup>(3)</sup> PSU awards vested and not exercised at 31 March 2016: nil (2015:11,000).

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 31

### Key Management Personnel disclosure continued

Details of Share – based payment grant dates affecting compensation for the financial years ended 31 March 2016 and 31 March 2015

Financial 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
2015	Retained DPS	17 August 2015	6 July 2015
	PSUs	17 August 2015	17 August 2015

### 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 <sup>(1)</sup>
<b>Total for Key Management Personnel and their related parties</b>	<b>2016</b>	<b>559</b>	<b>9</b>	<b>–</b>	<b>–</b>
	<b>2015</b>	<b>600</b>	<b>14</b>	<b>–</b>	<b>559</b>

<sup>(1)</sup> Number of persons included in the aggregate at 31 March 2016: 1 (2015: 1).

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

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## Note 32

### Employee equity participation

#### Macquarie Group Employee Retained Equity Plan

The Consolidated Entity continues to operate the MEREP in conjunction with remuneration arrangements. These arrangements include a portion of staff profit share paid in cash and a portion delivered as equity, a proportion of deferred remuneration and cessation of 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). 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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 32

### Employee equity participation continued

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

	Number of RSU Awards 2016	Number of RSU Awards 2015
RSUs on issue at the beginning of the financial year	19,726,827	22,446,790
Granted during the financial year	4,307,294	4,810,937
Vested RSUs withdrawn or sold from the MEREP during the financial year	(6,668,791)	(6,590,000)
Forfeited during the financial year	(602,826)	(940,900)
RSUs on issue at the end of the financial year	16,762,504	19,726,827
RSUs vested and not withdrawn from the MEREP at the end of the financial year	1,391	4,457

The weighted average fair value of the RSU Awards granted during the financial year was \$81.12 (2015: \$59.75).

	Number of DSU Awards 2016	Number of DSU Awards 2015
DSUs on issue at the beginning of the financial year	3,632,298	3,917,214
Granted during the financial year	758,955	810,248
Exercised during the financial year	(1,281,518)	(1,001,795)
Forfeited during the financial year	(73,277)	(93,369)
DSUs on issue at the end of the financial year	3,036,458	3,632,298
DSUs exercisable at the end of the financial year	539,951	539,167

The weighted average fair value of the DSU Awards granted during the financial year was \$81.42 (2015: \$59.67).

	Number of PSU Awards 2016	Number of PSU Awards 2015
PSUs on issue at the beginning of the financial year	1,824,542	1,792,160
Granted during the financial year	409,866	475,608
Exercised during the financial year	(498,607)	(223,937)
Expired during the financial year	(106,063)	(219,289)
PSUs on issue at the end of the financial year	1,629,738	1,824,542
PSUs exercisable at the end of the financial year	–	11,000

The weighted average fair value of the PSU Awards granted during the financial year was \$66.77 (2015: \$47.89).

	Number of Restricted Share Awards 2016	Number of Restricted Share Awards 2015
Restricted shares on issue at the beginning of the financial year	71,032	138,900
Granted during the financial year	125,621	19,951
Released during the financial year	(78,498)	(87,819)
Restricted shares on issue at the end of the financial year	118,155	71,032

The weighted average fair value of the restricted shares granted during the financial year was \$78.93 (2015: \$58.49).

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## Note 32

### 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 financial year in respect of 2015. 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: 2.45%
- expected vest dates of PSU: 1 July 2018 and 1 July 2019, and
- dividend yield: 4.73% per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members), in respect of the current financial 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 2016 (and for PSUs, also incorporates an interest rate to maturity of 2.32%; expected vest dates of PSU: 1 July 2019 and 1 July 2020; and a dividend yield of 4.57% 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 financial year ended 31 March 2016, compensation expense relating to the MEREP totalled \$339 million (2015: \$340 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 above a threshold amount (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).

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 32

### Employee equity participation continued

Vesting periods are as follows:

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

<sup>(1)</sup> Vesting will occur during an eligible staff trading window.

<sup>(2)</sup> Vesting will occur during an eligible staff trading window. 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.

<sup>(3)</sup> 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 2015 retention, the allocation price was the weighted average price of the Shares acquired for the 2015 Purchase Period, which was 18 May 2015 to 6 July 2015 inclusive (excluding the period from 26 May to 11 June 2015). That price was calculated to be \$80.68 (2014 retention: \$59.56).

## Note 32

### 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% 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 FY2016.

The hurdles are outlined below.

#### Performance hurdle 1

Hurdle	Reference group	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period compared with a reference group of global peers. A sliding scale applies with 50% becoming exercisable above the 50 <sup>th</sup> percentile and 100% vesting at the 75 <sup>th</sup> percentile.	The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Limited, 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.

#### Performance hurdle 2

Hurdle	Required result	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12.0%. For example, if EPS CAGR were 9.75%, 75% of the Award would become exercisable.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9.0% and 100% at EPS CAGR of 13.0%. For example, if EPS CAGR were 11.0%, 75% 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 financial year ended 31 March 2016 was \$0.6 million (2015: \$0.6 million).



# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

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## Note 32

### 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 2015. A total of 1,107 (2015: 1,005) staff participated in this offer. On 8 December 2015, the participants were each allocated 12 (2015:16) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$82.13 (2015: \$59.27); a total of 13,284 (2015: 16,080) 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.

<b>Consolidated</b>	<b>Consolidated</b>	<b>Company</b>	<b>Company</b>
<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>

## Note 33

### Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

#### Contingent liabilities exist in respect of:

Letters of credit	765	611	–	–
Performance related contingents	315	276	–	–
Guarantees <sup>(1)</sup>	249	601	3,289	3,585
Indemnities	84	155	–	–
<b>Total contingent liabilities<sup>(2),(3),(4)</sup></b>	<b>1,413</b>	<b>1,643</b>	<b>3,289</b>	<b>3,585</b>

#### Commitments exist in respect of:

Undrawn credit facilities and securities underwriting <sup>(5)</sup>	7,111	5,956	–	–
Forward asset purchases	1,066	5,712	–	–
<b>Total commitments</b>	<b>8,177</b>	<b>11,668</b>	<b>–</b>	<b>–</b>
<b>Total contingent liabilities and commitments</b>	<b>9,590</b>	<b>13,311</b>	<b>3,289</b>	<b>3,585</b>

(1) The Company guaranteed \$1,986 million (2015: 2,023 million) of performance obligations of a consolidated structured entity in relation to their external obligations disclosed in Note 35 – Structured entities.

(2) 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. Other than those recognised liabilities, 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.

(3) The Company guarantees the performance obligation of certain subsidiaries in relation to their external obligations.

(4) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

(5) Undrawn credit facilities are irrevocable extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

## Note 34

### Lease commitments

Non-cancellable operating leases expiring:

Not later than one year	170	147	–	–
Later than one year and not later than five years	582	570	–	–
Later than five years	204	292	–	–
<b>Total operating lease commitments</b>	<b>956</b>	<b>1,009</b>	<b>–</b>	<b>–</b>

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

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 35

### Structured entities

The Consolidated Entity engages in various transactions with Structured entities (SEs). SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (for example 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 and asset-backed financing structures.

### 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 financial year from interests held at the reporting date relates to interest, management fees, servicing fees and gains or 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 financial year from interests held at the reporting date relates to revaluation of derivatives, dividends, interest and servicing fees.

### 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 (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

- (i) creates rather than absorbs variability of the unconsolidated SE (for example 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 35

### 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:

	Nature of activity	
	Securitisations \$m	Asset-backed financing \$m
Consolidated 2016		
<b>Carrying value of assets</b>		
Trading portfolio assets	367	795
Derivative assets	36	3
Investment securities available for sale <sup>(1)</sup>	1,407	120
Loan assets held at amortised cost	342	331
<b>Total carrying value of assets</b>	<b>2,152</b>	<b>1,249</b>
<b>Maximum exposure to loss</b>		
Debt and equity held	2,116	1,246
Derivatives and undrawn commitments	980	3
<b>Total maximum exposure to loss</b>	<b>3,096</b>	<b>1,249</b>
Consolidated 2015		
<b>Carrying value of assets</b>		
Trading portfolio assets	373	–
Derivative assets	1	11
Investment securities available for sale <sup>(1)</sup>	1,692	176
Loan assets held at amortised cost	308	451
<b>Total carrying value of assets</b>	<b>2,374</b>	<b>638</b>
<b>Maximum exposure to loss</b>		
Debt and equity held	2,373	627
Derivatives and undrawn commitments	786	55
<b>Total maximum exposure to loss</b>	<b>3,159</b>	<b>682</b>

<sup>(1)</sup> Securitisations includes \$924 million (2015: \$1,198 million) of investments that are managed by the Consolidated Entity under the liquid assets holdings policy described in Note 37.2 – Liquidity risk.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

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## Note 35

### 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 \$445 million (2015: \$742 million) in subordinated interests, with \$332 million (2015: \$234 million) included in securitisation activities and \$113 million (2015: \$508 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 37.3 – 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 \$595 million (2015: \$1,668 million), and the potential loss borne by others whose interests rank lower is \$7 million (2015: \$9 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 \$1,986 million (2015: \$2,023 million), which is included in amounts of MGL guarantees disclosed in Note 33 – Contingent liabilities and commitments. For the Consolidated Entity, this contingent liability is replaced with the SE's borrowing of \$1,922 million (2015: \$1,957 million) owing to third parties, included in Note 23 – Debt issued at amortised cost.

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## Note 36

### Derivative financial instruments

#### Objectives of holding and issuing derivative financial instruments

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

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

**Cash flow hedges:** The Consolidated Entity is exposed to volatility in future interest cash flows arising from 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 and foreign currency denominated assets which are hedged with cross-currency swaps.

At 31 March 2016, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was \$165 million negative value (2015: \$125 million negative value).

During the financial year the Consolidated Entity recognised a \$1 million loss (2015: \$1 million loss) in the income statement due to hedge ineffectiveness on cash flow hedges.

**Fair value hedges:** The Consolidated Entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate 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 2016, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$451 million positive value (2015: \$74 million negative value).

During the financial year, a fair value gain from hedging instruments of \$525 million was recognised (2015: \$285 million loss), offset by a \$525 million loss (2015: \$301 million gain) on the hedged items.

#### 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 2016, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was \$195 million positive value (2015: \$237 million negative value). During the financial year the Consolidated Entity recognised \$nil (2015: \$nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to \$8,531 million (2015: \$6,208 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange gain of \$286 million (2015: \$911 million loss) 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 2016

### continued

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## Note 37

### Financial risk management

#### Risk Management Group

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are credit, liquidity, market, equity, conduct, regulatory, compliance, reputation, operational, legal, tax and insurance risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of this Annual Report. 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 CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.



## Note 37.1

### Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not repaid 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 required. 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. Derivative exposures are measured using high confidence potential future underlying 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 <sup>(1)</sup>	MQ99	Default

<sup>(1)</sup> The default category primarily correlates to the past due more than 90 days not impaired and individually impaired balances disclosed in the following pages.

Retail pools are mapped to the corresponding rating grade based on their probability of 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 management framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

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

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.1

### Credit risk continued

#### Maximum exposure to credit risk

The table below details the concentration of maximum exposure to credit risk of the Consolidated Entity's financial assets, credit commitments and contingent liabilities by significant geographical locations and counterparty type. The maximum credit exposure is to each counterparty and does not take into consideration collateral or other credit enhancements (refer section on collateral and credit enhancements). The geographical location is determined by the domicile and industry type of the counterparty and prior year comparative information has been reclassified to conform to current year presentation.

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m
<b>Australia</b>				
Governments	–	4,858	452	1,379
Financial institutions	5,595	241	1,851	5,768
Other	–	–	776	90
<b>Total Australia</b>	<b>5,595</b>	<b>5,099</b>	<b>3,079</b>	<b>7,237</b>
<b>Asia Pacific</b>				
Governments	–	1,154	1	53
Financial institutions	3,669	336	215	264
Other	–	247	415	–
<b>Total Asia Pacific</b>	<b>3,669</b>	<b>1,737</b>	<b>631</b>	<b>317</b>
<b>Europe, Middle East and Africa</b>				
Governments	–	680	53	–
Financial institutions	11,797	51	4,672	409
Other	–	63	3,765	83
<b>Total Europe, Middle East and Africa</b>	<b>11,797</b>	<b>794</b>	<b>8,490</b>	<b>492</b>
<b>Americas</b>				
Governments	–	376	194	–
Financial institutions	12,067	345	3,012	648
Other	–	905	2,577	384
<b>Total Americas</b>	<b>12,067</b>	<b>1,626</b>	<b>5,783</b>	<b>1,032</b>
<b>Total gross credit risk</b>	<b>33,128</b>	<b>9,256</b>	<b>17,983</b>	<b>9,078</b>

<sup>(1)</sup> Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, \$2,263 million reclassification from Asia Pacific and Europe, Middle East and Africa regions to Americas and Australia regions occurs.

<sup>(2)</sup> This balance excludes other non-financial assets of \$3,387 million which are included in Note 10 – Other assets.

Other financial assets <sup>(2)</sup> \$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 2016				
4	105	–	–	6,798
387	1,514	10	182	15,548
592	53,244	17	2,876	57,595
983	54,863	27	3,058	79,941
697	8	72	–	1,985
545	373	–	4	5,406
940	787	15	192	2,596
2,182	1,168	87	196	9,987
79	12	–	13	837
1,803	2,260	268	570	21,830
1,042	7,758	158	2,185	15,054
2,924	10,030	426	2,768	37,721
29	107	–	–	706
2,151	4,949	–	349	23,521
840	9,249	–	3,219	17,174
3,020	14,305	–	3,568	41,401
9,109	80,366	540	9,590	169,050

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.1

### Credit risk continued

### Maximum exposure to credit risk continued

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m
<b>Australia</b>				
Governments	–	4,250	534	1,166
Financial institutions	4,161	200	3,207	3,320
Other	–	2	862	111
<b>Total Australia</b>	<b>4,161</b>	<b>4,452</b>	<b>4,603</b>	<b>4,597</b>
<b>Asia Pacific</b>				
Governments	–	651	1	91
Financial institutions	3,558	832	354	225
Other	–	461	348	–
<b>Total Asia Pacific</b>	<b>3,558</b>	<b>1,944</b>	<b>703</b>	<b>316</b>
<b>Europe, Middle East and Africa</b>				
Governments	–	126	84	–
Financial institutions	7,882	312	5,069	468
Other	–	57	2,485	458
<b>Total Europe, Middle East and Africa</b>	<b>7,882</b>	<b>495</b>	<b>7,638</b>	<b>926</b>
<b>Americas</b>				
Governments	–	1,557	159	–
Financial institutions	13,104	344	3,915	153
Other	–	684	3,062	460
<b>Total Americas</b>	<b>13,104</b>	<b>2,585</b>	<b>7,136</b>	<b>613</b>
<b>Total gross credit risk</b>	<b>28,705</b>	<b>9,476</b>	<b>20,080</b>	<b>6,452</b>

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, \$2,993 million reclassification from Americas, Asia Pacific and Australia regions to Europe, Middle East and Africa region occurs.

(2) This balance excludes other non-financial assets of \$2,321 million which are included in Note 10 – Other assets.

Other financial assets <sup>(2)</sup> \$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	–	–	6,013
1,419	1,280	–	256	13,843
260	43,398	265	2,062	46,960
1,681	44,739	265	2,318	66,816
55	9	76	–	883
824	442	–	33	6,268
1,251	840	–	109	3,009
2,130	1,291	76	142	10,160
128	6	20	–	364
2,261	2,694	357	467	19,510
965	8,083	74	6,604	18,726
3,354	10,783	451	7,071	38,600
–	110	–	–	1,826
3,002	4,132	60	1,267	25,977
1,069	11,707	197	2,513	19,692
4,071	15,949	257	3,780	47,495
11,236	72,762	1,049	13,311	163,071

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.1

### Credit risk continued

#### Maximum exposure to credit risk continued

	Other financial assets <sup>(1)</sup> \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
<b>Australia</b>				
				Company 2016
Financial institutions	–	66	–	66
Other	–	10,752	454	11,206
Total Australia	–	10,818	454	11,272
<b>Asia Pacific</b>				
Financial institutions	–	1	–	1
Other	–	13	292	305
Total Asia Pacific	–	14	292	306
<b>Europe, Middle East and Africa</b>				
Financial institutions	–	–	77	77
Other	–	–	389	389
Total Europe, Middle East and Africa	–	–	466	466
<b>Americas</b>				
Financial institutions	–	–	–	–
Other	–	21	2,077	2,098
Total Americas	–	21	2,077	2,098
<b>Total gross credit risk</b>	<b>–</b>	<b>10,853</b>	<b>3,289</b>	<b>14,142</b>
<b>Australia</b>				
				Company 2015
Financial institutions	7	48	–	55
Other	1	10,207	475	10,683
Total Australia	8	10,255	475	10,738
<b>Asia Pacific</b>				
Financial institutions	–	1	–	1
Other	–	37	409	446
Total Asia Pacific	–	38	409	447
<b>Europe, Middle East and Africa</b>				
Financial institutions	–	–	58	58
Other	–	2	495	497
Total Europe, Middle East and Africa	–	2	553	555
<b>Americas</b>				
Financial institutions	–	3	–	3
Other	–	63	2,148	2,211
Total Americas	–	66	2,148	2,214
<b>Total gross credit risk</b>	<b>8</b>	<b>10,361</b>	<b>3,585</b>	<b>13,954</b>

<sup>(1)</sup> Other financial assets as at 31 March 2015 excludes other non-financial assets of \$130 million which are included in Note 10 – Other assets.

## Note 37.1

### Credit risk continued

#### Credit quality of financial assets

The table below details the credit quality of the Consolidated Entity's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements (refer to section collateral and credit enhancements). Prior year comparative information has been reclassified to conform to current year presentation.

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
Consolidated 2016					
<b>Receivables from financial institutions<sup>(1)</sup></b>	<b>28,680</b>	<b>4,448</b>	<b>–</b>	<b>–</b>	<b>33,128</b>
<b>Trading portfolio assets<sup>(2)</sup></b>					<b>9,256</b>
Governments	6,468	600	–	–	7,068
Financial institutions	768	205	–	–	973
Other	273	921	21	–	1,215
<b>Derivative assets</b>					<b>17,983</b>
Governments	697	3	–	–	700
Financial institutions	9,557	193	–	–	9,750
Other	4,521	3,012	–	–	7,533
<b>Debt investment securities available for sale</b>					<b>9,078</b>
Governments	1,432	–	–	–	1,432
Financial institutions	6,755	334	–	–	7,089
Other	18	476	–	63	557
<b>Other financial assets<sup>(2)</sup></b>					<b>9,109</b>
Governments	604	166	39	–	809
Financial institutions	3,534	1,294	58	–	4,886
Other	1,579	1,748	77	10	3,414
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					<b>80,366</b>
Governments	191	41	–	–	232
Financial institutions	7,713	1,383	–	–	9,096
Other	37,263	30,063	3,294	418	71,038
<b>Other financial assets at fair value through profit or loss</b>					<b>540</b>
Governments	72	–	–	–	72
Financial institutions	268	10	–	–	278
Other	5	178	3	4	190
<b>Total</b>	<b>110,398</b>	<b>45,075</b>	<b>3,492</b>	<b>495</b>	<b>159,460</b>

<sup>(1)</sup> Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, \$1,761 million reclassification from investment grade to below investment grade occurs.

<sup>(2)</sup> Below investment grade trading portfolio assets and other financial assets include purchased distressed debt.

<sup>(3)</sup> Includes residential mortgages where the Consolidated Entity has obtained Lender's Mortgage Insurance (LMI). Where LMI is obtained, the residential mortgage is classified as investment grade.

<sup>(4)</sup> Included in the past due category are balances which were overdue by one day or more.



# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.1

### Credit risk continued

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
Consolidated 2015					
<b>Receivables from financial institutions<sup>(1)</sup></b>	25,535	3,170	–	–	28,705
<b>Trading portfolio assets<sup>(2)</sup></b>					9,476
Governments	6,584	–	–	–	6,584
Financial institutions	1,205	483	–	–	1,688
Other	436	768	–	–	1,204
<b>Derivative assets</b>					20,080
Governments	769	9	–	–	778
Financial institutions	12,314	231	–	–	12,545
Other	3,903	2,854	–	–	6,757
<b>Debt investment securities available for sale</b>					6,452
Governments	1,257	–	–	–	1,257
Financial institutions	4,122	44	–	–	4,166
Other	93	814	122	–	1,029
<b>Other financial assets<sup>(2)</sup></b>					11,236
Governments	164	19	2	–	185
Financial institutions	5,239	2,203	64	–	7,506
Other	2,271	1,143	100	31	3,545
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					72,762
Governments	174	12	–	–	186
Financial institutions	6,673	1,863	12	–	8,548
Other	35,749	25,494	2,191	594	64,028
<b>Other financial assets at fair value through profit or loss</b>					1,049
Governments	96	–	–	–	96
Financial institutions	357	60	–	–	417
Other	22	498	14	2	536
<b>Total</b>	<b>106,963</b>	<b>39,665</b>	<b>2,505</b>	<b>627</b>	<b>149,760</b>

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, \$3,039 million reclassification from investment grade to below investment grade occurs.

(2) Below investment grade trading portfolio assets and other financial assets include purchased distressed debt.

(3) Includes residential mortgages where the Consolidated Entity has obtained Lender's Mortgage Insurance (LMI). Where LMI is obtained, the residential mortgage is classified as investment grade.

(4) Included in the past due category are balances which were overdue by one day or more.

## Note 37.1

### Credit risk continued

The table below details the credit quality of the Company's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements (refer section on collateral and credit enhancements). Prior year comparative information has been reclassified to conform to current year presentation.

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(1)</sup> \$m	Individually impaired \$m	Total \$m
					Company 2016
<b>Due from subsidiaries</b>					<b>10,853</b>
Financial institutions	67	–	–	–	67
Other	10,786	–	–	–	10,786
<b>Total</b>	<b>10,853</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>10,853</b>
					Company 2015
<b>Other financial assets</b>					<b>8</b>
Financial institutions	–	7	–	–	7
Other	–	1	–	–	1
<b>Due from subsidiaries</b>					<b>10,361</b>
Financial institutions	52	–	–	–	52
Other	10,309	–	–	–	10,309
<b>Total</b>	<b>10,361</b>	<b>8</b>	<b>–</b>	<b>–</b>	<b>10,369</b>

<sup>(1)</sup> Included in the past due category are balances which were overdue by one day or more.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.1

### Credit risk continued

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

Class of financial asset	Past due but not individually impaired				Total past due but not individually impaired	Individually Impaired	Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Debt investment securities available for sale</b>							
						Consolidated 2016	
Others	–	–	–	–	–	63	63
<b>Other financial assets</b>							
Government	39	–	–	–	39	–	39
Financial institutions	48	4	6	–	58	–	58
Other	50	15	4	8	77	10	87
<b>Loan assets held at amortised cost</b>							
Other	1,605	390	168	1,131	3,294	418	3,712
<b>Trading portfolio assets</b>							
Other	–	–	–	21	21	–	21
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	2	1	–	3	4	7
<b>Total</b>	<b>1,742</b>	<b>411</b>	<b>179</b>	<b>1,160</b>	<b>3,492</b>	<b>495</b>	<b>3,987</b>
<b>Debt investment securities available for sale</b>							
						Consolidated 2015	
Other	–	–	–	122	122	–	122
<b>Other financial assets</b>							
Government	1	1	–	–	2	–	2
Financial institutions	63	1	–	–	64	–	64
Other	73	13	4	10	100	31	131
<b>Loan assets held at amortised cost</b>							
Financial institutions	5	4	3	–	12	–	12
Other	782	185	72	1,152	2,191	594	2,785
<b>Other financial assets at fair value through profit or loss</b>							
Other	13	1	–	–	14	2	16
<b>Total</b>	<b>937</b>	<b>205</b>	<b>79</b>	<b>1,284</b>	<b>2,505</b>	<b>627</b>	<b>3,132</b>

## Note 37.1

### Credit risk continued

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

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 or impaired balances for loan assets held at amortised cost, \$1,663 million (2015: \$1,058 million) relates to collateral held against past due or 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 or 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. During the year, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of \$10 million (2015: \$79 million). These assets are in the process of being sold.

#### Collateral and credit enhancements held

##### Receivables from financial institutions

Cash collateral on securities borrowed and reverse repurchase agreements balances are included in receivables from financial institutions as well as cash balances.

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. There are no uncollateralised positions.

#### 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 a portion 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. The majority of the Americas portfolio consists of Canadian mortgages. Included in the mortgage loan balance is \$18,087 million (2015: \$17,207 million) which have been securitised by consolidated SPEs.

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.

	2016			2015		
	Australia \$m	Americas \$m	EMEA \$m	Australia \$m	Americas \$m	EMEA \$m
<b>Fully collateralised</b>						
Loan to value ratio						
Less than 25%	922	15	14	937	36	–
25% to 50%	4,078	72	103	3,261	226	–
51% to 70%	7,649	306	375	6,149	803	720
71% to 80%	10,015	497	219	8,361	1,188	–
81% to 90%	5,060	541	49	4,545	1,082	–
91% to 100%	1,305	99	30	1,626	467	–
<b>Partly collateralised</b>	15	–	–	15	2	–
<b>Total mortgages</b>	<b>29,044</b>	<b>1530</b>	<b>790</b>	<b>24,894</b>	<b>3,804</b>	<b>720</b>

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.1

### Credit risk continued

#### *Relationship banking mortgages*

In addition, and separately to, the residential mortgages portfolios above, Macquarie Business Banking provides residential and commercial mortgages to clients in Australia, which are usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property.

	2016 \$m	2015 \$m
<b>Fully collateralised</b>		
Loan to value ratio		
Less than 50%	158	166
51% to 70%	762	749
71% to 80%	1,076	857
81% to 90%	187	213
91% to 100%	43	58
<b>Partly collateralised by real estate</b>	15	21
<b>Total mortgages</b>	<b>2,241</b>	<b>2,064</b>

#### *Investment and insurance premium lending*

Macquarie lends to clients for investment, and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the underlying 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 \$1,022 million (2015: \$1,671 million), \$990 million (2015: \$1,626 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 \$19,425 million (2015: \$11,435 million), the credit exposure after considering the depreciated value of collateral is \$8,939 million (2015: \$5,527 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 corporate assets. Of the term lending of \$18,308 million (2015: \$19,025 million), the credit exposure after the estimated value of collateral and credit enhancements is \$4,755 million (2015: \$4,802 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, as a credit risk mitigant, 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 \$195 million (2015: \$268 million). This amount is secured by the underlying securities investments or cash deposits of the investors.

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## Note 37.1

### Credit risk continued

#### Derivative financial instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are 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 Macquarie's 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 as at 31 March 2016 of \$1,794 million (2015: \$4,641 million).

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 (for example 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 2016, Macquarie held OTC contracts with a positive replacement value of \$16,189 million (2015: \$15,505 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$8,823 million (2015: \$8,753 million) and margins held (excluding the impact of over-collateralisation) of \$2,432 million (2015: \$1,738 million).

#### Debt investment securities available for sale

Included in this balance are holdings of \$482 million (2015: \$225 million) secured by specified Australian assets under covered bonds.

#### Other assets

Security settlements of \$5,961 million (2015: \$6,722 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 3 days after trade.

#### Credit commitments and contingent liabilities

Of the Undrawn facilities and lending commitments of \$7,111 million (2015: \$6,598 million), \$4,051 million (2015: \$2,754 million) are fully secured by underlying specific assets.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.2

### Liquidity risk

#### Governance and oversight

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, CRO, the Group Treasurer, Head of Balance Sheet Management and Business Group Heads.

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

#### Liquidity policy and risk appetite

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 liquidity 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 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 liquidity 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 reduction in franchise businesses.

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

#### Liquidity Contingency Plan

Group Treasury maintains a *Liquidity Contingency Plan*, which outlines how a liquidity stress would be managed across the entire Consolidated Entity. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying 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 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.

In addition, Macquarie monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding invoking the plan.

The *Liquidity Contingency Plan* is subject to regular review (at least annually) by both Group Treasury and RMG and is submitted to the Board for approval.

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

#### Funding Strategy

Macquarie prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The *Funding Strategy* is reviewed by ALCO and approved by the respective Boards.

#### Scenario analysis

Scenario analysis is central to the Consolidated Entity's liquidity risk management framework. In addition to the regulatory defined scenarios, Group Treasury models a number of additional liquidity scenarios covering both market-wide and firm-specific crises.

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 regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.



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## Note 37.2

### Liquidity risk continued

#### Liquidity contingency plan continued

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and firm specific crisis over a 12 month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

#### Liquid asset holdings

Group Treasury centrally 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.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario and composition constraints are applied to ensure appropriate diversity and quality of the assets in the portfolio. Further, the cash and 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.

#### 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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.2

### Liquidity risk continued

#### 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 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
<b>Consolidated 2016</b>						
Trading portfolio liabilities	–	5,030	–	–	–	5,030
Derivative financial instruments (trading)	–	13,718	–	–	–	13,718
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	800	1,046	4,094	1,154	7,094
Contractual amounts receivable	–	(655)	(743)	(3,182)	(941)	(5,521)
Deposits	43,220	4,897	3,553	585	77	52,332
Other financial liabilities <sup>(1)</sup>	–	8,576	–	–	–	8,576
Payables to financial institutions	7,949	3,529	371	12,288	424	24,561
Debt issued at amortised cost <sup>(2),(3)</sup>	2,145	10,399	9,149	32,397	21,687	75,777
Other financial liabilities at fair value through profit or loss	6	108	275	307	2,461	3,157
Loan Capital <sup>(4)</sup>	–	161	263	3,550	2,478	6,452
<b>Total undiscounted cash flows</b>	<b>53,320</b>	<b>46,563</b>	<b>13,914</b>	<b>50,039</b>	<b>27,340</b>	<b>191,176</b>
Contingent liabilities	–	1,413	–	–	–	1,413
Commitments	2,456	1,188	355	3,549	629	8,177
<b>Total undiscounted contingent liabilities and commitments<sup>(5)</sup></b>	<b>2,456</b>	<b>2,601</b>	<b>355</b>	<b>3,549</b>	<b>629</b>	<b>9,590</b>

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

(2) On 4 April 2016, Macquarie exercised its right to repay \$3,000 million of payables to financial institutions that was contractually due to mature more than 12 months after balance date, on 1 May 2017.

(3) Included in this balance is \$22,642 million (2015: \$25,861 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.

(4) 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 26 – Loan capital.

(5) 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 37.2

### Liquidity risk continued

#### Contractual undiscounted cash flows continued

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
Consolidated 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 <sup>(1)</sup>	–	11,572	–	–	–	11,572
Payables to financial institutions	9,124	5,182	668	3,584	565	19,123
Debt issued at amortised cost <sup>(2)</sup>	3	10,209	11,624	31,017	22,421	75,274
Other financial liabilities at fair value through profit or loss	–	153	170	361	1,175	1,859
Loan Capital <sup>(3)</sup>	–	147	744	2,129	2,270	5,290
<b>Total undiscounted cash flows</b>	<b>48,229</b>	<b>54,524</b>	<b>16,844</b>	<b>38,122</b>	<b>26,677</b>	<b>184,396</b>
Contingent liabilities	–	1,643	–	–	–	1,643
Commitments	620	5,001	5,213	825	9	11,668
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>620</b>	<b>6,644</b>	<b>5,213</b>	<b>825</b>	<b>9</b>	<b>13,311</b>

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

<sup>(2)</sup> Included in this balance is \$25,861 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.

<sup>(3)</sup> 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 26 – Loan capital.

<sup>(4)</sup> 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 2016

### continued

## Note 37.2

### 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
<b>Company 2016</b>						
Payables to financial institutions	4	13	40	2,937	–	2,994
Due to subsidiaries <sup>(1)</sup>	522	–	–	–	–	522
Debt issued at amortised cost	–	96	969	5,866	583	7,514
Loan Capital <sup>(2)</sup>	–	16	51	1,318	–	1,385
<b>Total undiscounted cash flows</b>	<b>526</b>	<b>125</b>	<b>1,060</b>	<b>10,121</b>	<b>583</b>	<b>12,415</b>
Contingent liabilities	–	3,289	–	–	–	3,289
<b>Total undiscounted contingent liabilities<sup>(4)</sup></b>	<b>–</b>	<b>3,289</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,289</b>
<b>Company 2015</b>						
Deposits	–	–	18	–	–	18
Other financial liabilities <sup>(3)</sup>	–	3	–	–	–	3
Payables to financial institutions	–	11	34	2,691	–	2,736
Due to subsidiaries <sup>(1)</sup>	274	49	–	177	44	544
Debt issued at amortised cost	–	79	272	5,635	1,485	7,471
Loan Capital <sup>(2)</sup>	–	17	17	686	–	720
<b>Total undiscounted cash flows</b>	<b>274</b>	<b>159</b>	<b>341</b>	<b>9,189</b>	<b>1,529</b>	<b>11,492</b>
Contingent liabilities	–	3,585	–	–	–	3,585
<b>Total undiscounted contingent liabilities<sup>(4)</sup></b>	<b>–</b>	<b>3,585</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,585</b>

<sup>(1)</sup> Excludes items that are not financial instruments and non-contractual prepayments.

<sup>(2)</sup> 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 26 – Loan capital.

<sup>(3)</sup> Excludes items that are not financial instruments and non-contractual accruals and provisions.

<sup>(4)</sup> Cash flows on contingent liabilities are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

## Note 37.3

### Market risk

#### Traded market risk

Market risk is the exposure to adverse changes in the value of the Consolidated Entity's trading portfolios from 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
- **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.

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
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99% 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% confidence level)

The table below shows the average, maximum and minimum VaR over the financial 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.

	2016			2015		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
						<b>Consolidated</b>
Equities	10.92	16.44	5.88	6.51	13.43	3.35
Interest rates	5.62	9.13	4.16	8.86	14.49	6.08
Foreign exchange and bullion	2.23	6.06	1.13	2.64	4.44	0.58
Commodities	11.66	18.37	6.69	9.75	13.75	6.80
Aggregate	16.35	22.18	9.56	13.96	23.76	8.18

#### 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% 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.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

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## Note 37.3

### Market risk

#### 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.

#### 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 gain or loss 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. They 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. Other than this there is no material non-trading foreign exchange risk in the profit and loss.

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.

## Note 37.3

### Market risk continued

#### Foreign currency risk continued

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally, those with the most impact on the sensitivity analysis are United States dollars, Great British pounds, Canadian dollars and Euro as shown below.

	2016		2015	
	Movement in exchange rates %	Sensitivity of equity after tax \$m	Movement in exchange rates %	Sensitivity of equity after tax \$m
				<b>Consolidated</b>
United States dollars	+10	(487)	+10	(413)
Great British pounds	+10	(84)	+10	(70)
Canadian dollars	+10	(27)	+10	(28)
Euro	+10	(35)	+10	(33)
Total		(633)		(544)
United States dollars	-10	595	-10	505
Great British pounds	-10	102	-10	85
Canadian dollars	-10	33	-10	34
Euro	-10	43	-10	41
Total		773		665

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 37.3

### Market risk continued

#### Equity price risk

The table below indicates the equity markets to which the Consolidated Entity had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Geographic region	2016		2015	
	Movement in equity price	Sensitivity of equity after tax	Movement in equity price	Sensitivity of equity after tax
	%	\$m	%	\$m
Consolidated				
Listed				
Australia	+10	40	+10	27
Americas	+10	32	+10	32
Europe, Middle East and Africa	+10	2	+10	1
Asia Pacific	+10	–	+10	1
Unlisted	+10	90	+10	104
Listed				
Australia	–10	(40)	–10	(27)
Americas	–10	(32)	–10	(32)
Europe, Middle East and Africa	–10	(2)	–10	(1)
Asia Pacific	–10	–	–10	(1)
Unlisted	–10	(90)	–10	(104)



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## Note 38

### Fair value of financial assets and liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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:

<b>Level 1:</b>	quoted prices (unadjusted) in active markets for identical assets or liabilities
<b>Level 2:</b>	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
<b>Level 3:</b>	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 (for example 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 (for example 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 the Group'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 (for example for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 38

### 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 included within receivables from financial institutions, payables to financial institutions and other financial assets and financial liabilities
- 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 included within receivables from financial institutions and payables to financial institutions, 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 deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
- the fair value of debt issued and loan capital issued at amortised cost 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.

	2016 Carrying value \$m	2016 Fair value \$m	2015 Carrying value \$m	2015 Fair value \$m
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## Note 38

### 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:

#### Consolidated

##### Assets

Receivables from financial institutions	33,128	33,128	28,705	28,705
Other financial assets <sup>(1)</sup>	9,109	9,109	11,236	11,236
Loan assets held at amortised cost	80,366	80,665	72,762	72,834
<b>Total assets</b>	<b>122,603</b>	<b>122,902</b>	<b>112,703</b>	<b>112,775</b>

##### Liabilities

Deposits	52,245	52,267	47,386	47,359
Other financial liabilities <sup>(2)</sup>	7,805	7,805	10,568	10,568
Payables to financial institutions	23,860	23,820	18,645	18,747
Debt issued at amortised cost	63,685	63,642	61,463	62,463
Loan capital	5,209	5,158	4,384	4,712
<b>Total liabilities</b>	<b>152,804</b>	<b>152,692</b>	<b>142,446</b>	<b>143,849</b>

#### Company

##### Assets

Other financial assets <sup>(3)</sup>	–	–	8	8
Due from subsidiaries	10,853	10,853	10,361	10,361
<b>Total assets</b>	<b>10,853</b>	<b>10,853</b>	<b>10,369</b>	<b>10,369</b>

##### Liabilities

Deposits	–	–	18	18
Other financial liabilities <sup>(4)</sup>	–	–	3	3
Payables to financial institutions	2,850	2,824	2,566	2,584
Due to subsidiaries	873	873	810	810
Debt issued at amortised cost	6,425	6,776	6,179	6,737
Loan capital	1,126	1,107	603	624
<b>Total liabilities</b>	<b>11,274</b>	<b>11,580</b>	<b>10,179</b>	<b>10,776</b>

<sup>(1)</sup> This balance excludes other non-financial assets of \$3,387 million (2015: \$2,321 million) which are included in Note 10 – Other assets.

<sup>(2)</sup> This balance excludes other non-financial liabilities of \$5,298 million (2015: \$5,482 million) which are included in Note 21 – Other liabilities.

<sup>(3)</sup> This balance excludes other non-financial assets of \$36 million (2015: \$130 million) which are included in Note 10 – Other assets.

<sup>(4)</sup> This balance excludes other non-financial liabilities of \$198 million (2015: \$65 million) which are included in Note 21 – Other liabilities.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 38

### Fair value of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Consolidated 2016				
<b>Assets</b>				
Receivables from financial institutions	9,175	23,953	–	33,128
Other financial assets	–	9,109	–	9,109
Loan assets held at amortised cost	8,486	8,293	63,886	80,665
<b>Total assets</b>	<b>17,661</b>	<b>41,355</b>	<b>63,886</b>	<b>122,902</b>
<b>Liabilities</b>				
Deposits	43,383	8,884	–	52,267
Other financial liabilities	–	7,805	–	7,805
Payables to financial institutions	1,579	22,241	–	23,820
Debt issued at amortised cost	–	56,670	6,972	63,642
Loan capital	1,845	3,313	–	5,158
<b>Total liabilities</b>	<b>46,807</b>	<b>98,913</b>	<b>6,972</b>	<b>152,692</b>
Consolidated 2015				
<b>Assets</b>				
Receivables from financial institutions	10,552	18,153	–	28,705
Other financial assets	–	11,236	–	11,236
Loan assets held at amortised cost	9,318	10,470	53,046	72,834
<b>Total assets</b>	<b>19,870</b>	<b>39,859</b>	<b>53,046</b>	<b>112,775</b>
<b>Liabilities</b>				
Deposits	37,375	9,984	–	47,359
Other financial liabilities	–	10,568	–	10,568
Payables to financial institutions	1,926	16,821	–	18,747
Debt issued at amortised cost	1,599	53,702	7,162	62,463
Loan capital	1,427	3,285	–	4,712
<b>Total liabilities</b>	<b>42,327</b>	<b>94,360</b>	<b>7,162</b>	<b>143,849</b>

The financial assets and liabilities held at amortised cost in the Company as at 31 March 2016 are predominantly classified as Level 2 in the fair value hierarchy except for 'Loan capital' classified as Level 1.

## Note 38

### 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 2016				
<b>Assets</b>				
Trading portfolio assets	15,121	7,609	807	23,537
Derivative assets	940	16,633	410	17,983
Investment securities available for sale	7,698	1,790	1,968	11,456
Other financial assets at fair value through profit or loss	74	1,529	46	1,649
Other financial assets <sup>(1)</sup>	71	772	79	922
<b>Total assets</b>	<b>23,904</b>	<b>28,333</b>	<b>3,310</b>	<b>55,547</b>
<b>Liabilities</b>				
Trading portfolio liabilities	2,829	2,201	–	5,030
Derivative liabilities	1,169	13,374	201	14,744
Other financial liabilities at fair value through profit or loss	–	2,618	54	2,672
Other financial liabilities <sup>(2)</sup>	–	764	7	771
<b>Total liabilities</b>	<b>3,998</b>	<b>18,957</b>	<b>262</b>	<b>23,217</b>
Consolidated 2015				
<b>Assets</b>				
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	234	825	–	1,059
<b>Total assets</b>	<b>25,186</b>	<b>33,959</b>	<b>3,421</b>	<b>62,566</b>
<b>Liabilities</b>				
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	232	772	–	1,004
<b>Total liabilities</b>	<b>4,088</b>	<b>21,843</b>	<b>261</b>	<b>26,192</b>

<sup>(1)</sup> This balance includes \$850 million (2015: \$1,059 million) of life insurance contracts and other unitholder investment assets and \$72 million (2015: \$nil) of other fair value financial assets which are included in Note 10 – Other assets.

<sup>(2)</sup> This balance includes \$771 million (2015: \$1,004 million) of life insurance contracts and other unitholder investment liabilities which are included in Note 21 – Other liabilities.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 38

### 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 2016 and 31 March 2015:

	Trading portfolio assets \$m	Investment securities available for sale \$m
<b>Balance at 1 April 2014</b>	710	1,224
Purchases	609	605
Sales	(545)	(450)
Issues	–	–
Settlements	–	(90)
Transfers into Level 3	130	672
Transfers out of Level 3	(217)	(78)
Fair value gains/(losses) recognised in the income statement <sup>(1)</sup>	10	274
Fair value gains recognised in other comprehensive income <sup>(1)</sup>	–	44
<b>Balance at 31 March 2015</b>	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 <sup>(1)</sup>	10	157
<b>Balance at 1 April 2015</b>	697	2,201
Purchases	391	302
Sales	(207)	(566)
Issues	–	–
Settlements	–	(89)
Transfers into Level 3	81	230
Transfers out of Level 3	(56)	(152)
Reclassifications	–	–
Fair value (losses)/gains recognised in the income statement <sup>(1)</sup>	(99)	6
Fair value gains recognised in other comprehensive income <sup>(1)</sup>	–	36
<b>Balance at 31 March 2016</b>	807	1,968
Fair value (losses)/gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	(99)	(54)

<sup>(1)</sup> 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 of 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.

<sup>(2)</sup> The derivative financial instruments in the table above are represented on a net basis. On a gross basis derivative assets are \$410 million (2015: \$333 million) and derivative liabilities are \$201 million (2015: \$239 million).

Other financial assets at fair value through profit or loss \$m	Other financial assets \$m	Other financial liabilities at fair value through profit or loss \$m	Other financial liabilities \$m	Derivative financial instruments (net replacement values) <sup>(2)</sup> \$m	Total \$m
Consolidated 2015					
153	—	(32)	—	11	2,066
6	—	—	—	104	1,324
(9)	—	—	—	(21)	(1,025)
—	—	—	—	(10)	(10)
9	—	11	—	2	(68)
—	—	—	—	(21)	781
—	—	—	—	29	(266)
31	—	(1)	—	—	314
—	—	—	—	—	44
190	—	(22)	—	94	3,160
32	—	(1)	—	(14)	184
Consolidated 2016					
190	—	(22)	—	94	3,160
1	—	(45)	—	114	763
(6)	—	8	—	(151)	(922)
—	—	—	—	—	—
—	—	—	—	—	(89)
7	7	—	(7)	10	328
(75)	—	—	—	28	(255)
(65)	65	—	—	—	—
(6)	7	5	—	114	27
—	—	—	—	—	36
46	79	(54)	(7)	209	3,048
1	7	5	—	124	(16)

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

## Note 38

### 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 financial year.

#### Unrecognised gain

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 2016 \$m	Consolidated 2015 \$m
Balance at the beginning of the financial year	56	12
Deferral on new transactions	108	46
Amounts recognised in the income statement during the financial year	(52)	(2)
Balance at the end of the financial year	112	56

#### Sensitivity analysis of valuations using unobservable inputs

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

	Favourable changes		Unfavourable changes	
	Profit or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
<b>Product type</b>	<b>Consolidated 2016</b>			
Equity and equity linked products	6	117	(6)	(114)
Other products	204	39	(154)	(32)
<b>Total</b>	<b>210</b>	<b>156</b>	<b>(160)</b>	<b>(146)</b>
<b>Product type</b>	<b>Consolidated 2015</b>			
Equity and equity linked products	13	114	(13)	(110)
Other products	81	23	(65)	(16)
<b>Total</b>	<b>94</b>	<b>137</b>	<b>(78)</b>	<b>(126)</b>



## Note 38

### 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.

	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	Range of inputs	
					Minimum value	Maximum value
As at 31 March 2016						
Equity and equity linked products	1,540	20	Discounted cash flows	Discount rate	7.0%	14.0%
			Pricing model	Volatility	–	–
				Earnings multiple	0.6x	13.5x
			Market comparability	Price in %	(1.2%)	0.1%
Other products	1,770	242	Discounted cash flows	Discount rate	7.0%	20.0%
			Pricing model	Volatility	(51.0%)	200.0%
				Correlation	(0.6)	1.0
			Market comparability	Price in %	(29.4%)	106.8%
<b>Total</b>	<b>3,310</b>	<b>262</b>				
As at 31 March 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
			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%
<b>Total</b>	<b>3,421</b>	<b>261</b>				

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

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## Note 38

### Fair value of financial assets and liabilities continued

#### Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. 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 39

### 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(xxv) – 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 37.1 – 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 2016						
Receivables from financial institutions <sup>(1)</sup>	23,833	–	23,833	(277)	(22,800)	756
Derivative assets	22,115	(7,121)	14,994	(10,617)	(2,432)	1,945
Other assets	2,551	(1,260)	1,291	(28)	–	1,263
Loan assets held at amortised cost	38	(38)	–	–	–	–
Other financial assets at fair value through profit or loss	2,235	(2,059)	176	–	–	176
<b>Total assets</b>	<b>50,772</b>	<b>(10,478)</b>	<b>40,294</b>	<b>(10,922)</b>	<b>(25,232)</b>	<b>4,140</b>
Derivative liabilities	(21,042)	7,121	(13,921)	10,617	1,573	(1,731)
Deposits	(314)	263	(51)	–	–	(51)
Other liabilities	(2,747)	1,260	(1,487)	28	–	(1,459)
Payables to financial institutions <sup>(2)</sup>	(8,158)	–	(8,158)	277	7,749	(132)
Other financial liabilities at fair value through profit or loss	(1,796)	1,796	–	–	–	–
Debt issued at amortised cost	(38)	38	–	–	–	–
<b>Total liabilities</b>	<b>(34,095)</b>	<b>10,478</b>	<b>(23,617)</b>	<b>10,922</b>	<b>9,322</b>	<b>(3,373)</b>

<sup>(1)</sup> Included within this balance are reverse repurchase arrangements and other similar secured lending.

<sup>(2)</sup> Included within this balance are repurchase arrangements and other similar secured borrowing.

# Notes to the financial statements

## for the financial year ended 31 March 2016

continued

### Note 39

#### 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 2015						
Receivables from financial institutions <sup>(1)</sup>	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
<b>Total assets</b>	<b>44,712</b>	<b>(9,067)</b>	<b>35,645</b>	<b>(13,073)</b>	<b>(18,511)</b>	<b>4,061</b>
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 <sup>(2)</sup>	(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	–	–	–	–
<b>Total liabilities</b>	<b>(38,421)</b>	<b>9,067</b>	<b>(29,354)</b>	<b>13,073</b>	<b>12,157</b>	<b>(4,124)</b>

<sup>(1)</sup> Included within this balance are reverse repurchase arrangements and other similar secured lending.

<sup>(2)</sup> Included within this balance are repurchase arrangements and other similar secured borrowing.

## Note 39

### 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 2016						
Due from subsidiaries	14,076	(3,309)	10,767	–	–	10,767
Due to subsidiaries	(3,683)	3,309	(374)	–	–	(374)
Company 2015						
Due from subsidiaries	11,002	(785)	10,217	–	–	10,217
Due to subsidiaries	(1,063)	785	(278)	–	–	(278)

#### Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 1(xxv) – 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, the net amount is presented in assets.

#### 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 2016

### continued

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## Note 40

### 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.

#### Interests in securitisations

Financial assets (principally mortgage loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Consolidated entity is entitled to any residual income of a securitisation vehicle, the Consolidated entity continues to recognise the financial assets. 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 40

### 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 2016 and at 31 March 2015. The following table presents information for transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2016 and 31 March 2015:

	Repurchase and securities lending agreements \$m	Transfers with total return/asset swaps \$m	Transfer with written put option \$m
<b>Consolidated 2016</b>			
Carrying amount of transferred assets <sup>(1)</sup>	3,616	886	–
Carrying amount of associated liabilities	(3,560)	(862)	–
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement <sup>(2)</sup>	–	–	–
<b>For those liabilities that have recourse only to the transferred assets:</b>			
Fair value of transferred assets	817	395	–
Fair value of associated liabilities	(884)	(395)	–
<b>Net fair value</b>	<b>(67)</b>	<b>–</b>	<b>–</b>
<b>Consolidated 2015</b>			
Carrying amount of transferred assets <sup>(1)</sup>	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 <sup>(2)</sup>	–	–	361
<b>For those liabilities that have recourse only to the transferred assets:</b>			
Fair value of transferred assets	948	1,992	345
Fair value of associated liabilities	(969)	(2,064)	(362)
<b>Net fair value</b>	<b>(21)</b>	<b>(72)</b>	<b>(17)</b>

<sup>(1)</sup> The transferred financial assets are presented in Note 8 – Trading portfolio assets \$2,206 million (2015: \$5,909 million), Note 9 – Investment securities available for sale \$1,078 million (2015: \$1,352 million), Note 11 – Loan assets held at amortised cost \$1,218 million (2015: \$3,312 million) and Note 13 – Other financial assets at fair value through profit and loss \$nil (2015: \$199 million) in the statement of financial position.

<sup>(2)</sup> 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 2016

### continued

## Note 41

### Audit and other services provided by PricewaterhouseCoopers

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

	Consolidated 2016 \$'000	Consolidated 2015 \$'000	Company 2016 \$'000	Company 2015 \$'000
<b>PwC – Australia</b>				
Audit and review of financial reports of the Group or subsidiaries	11,174	9,917	–	–
Other audit-related and assurance services	4,025	3,772	–	–
<b>Total audit and other assurance services</b>	<b>15,199</b>	<b>13,689</b>	<b>–</b>	<b>–</b>
Advisory services	49	151	–	–
Taxation	525	680	–	–
<b>Total non-audit services</b>	<b>574</b>	<b>831</b>	<b>–</b>	<b>–</b>
<b>Total remuneration paid to PwC Australia</b>	<b>15,773</b>	<b>14,520</b>	<b>–</b>	<b>–</b>
<b>Network firms of PwC Australia</b>				
Audit and review of financial reports of the Group or subsidiaries	13,917	10,522	–	–
Other audit-related and assurance services	777	457	–	–
<b>Total audit and other assurance services</b>	<b>14,694</b>	<b>10,979</b>	<b>–</b>	<b>–</b>
Advisory services	546	32	–	–
Taxation	3,297	1,608	–	–
<b>Total non-audit services</b>	<b>3,843</b>	<b>1,640</b>	<b>–</b>	<b>–</b>
<b>Total remuneration paid to network firms of PwC Australia</b>	<b>18,537</b>	<b>12,619</b>	<b>–</b>	<b>–</b>
<b>Total remuneration paid to PwC (Note 2)</b>	<b>34,310</b>	<b>27,139</b>	<b>–</b>	<b>–</b>

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 Consolidated entity's policy to seek competitive tenders for all major advisory projects.



## Note 42

### 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 financial year.

#### Other entities or businesses acquired or consolidated due to acquisition of control

AWAS Aviation Capital Portfolio, Esanda Dealer Finance Portfolio, Energetics Topco Limited, Advantage Funding Management Co. Inc., Macquarie Beteiligungs Nr 4 GmbH & Co. KG, Macquarie Holdings South Africa (Pty) Limited, Macquarie Equities South Africa (Pty) Limited, Macquarie Capital South Africa (Pty) Limited and NewZoom Inc.

On 4 March 2015, Macquarie entered into an agreement to acquire an aircraft operating lease portfolio of commercial passenger aircraft from AWAS Aviation Capital Limited. The portfolio comprised a combination of assets and wholly owned entities that were acquired in stages. On the 1 July 2015 acquisition date, the first aircraft were acquired. During the year, the entire portfolio was acquired for \$4,510 million with a total of 83 aircraft purchased. Due to the staged acquisition, the purchase accounting for the business combination is provisional.

On 8 October 2015, Macquarie entered into an agreement to acquire the Esanda Dealer Finance portfolio from Australia and New Zealand Banking Group Limited in two stages. The portfolio comprised retail receivables and motor vehicle dealer finance. On 2 November 2015 acquisition date, the first stage was completed with the portfolio of retail receivables being acquired for \$6,634 million. As at 31 March 2016, \$832 million of the motor vehicle dealer finance portfolio has been acquired. The purchase accounting for the business combination is provisional.

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

	2016 \$m	2015 \$m
<b>Fair value of net assets acquired</b>		
Receivables from financial institutions	59	4
Other assets	249	24
Loan assets held at amortised cost	7,875	335
Property, plant and equipment	4,999	–
Deposits	(95)	–
Other liabilities	(415)	(6)
Payables to financial institutions	(441)	–
Deferred tax liabilities	(75)	–
Non-controlling interests	(17)	–
<b>Total fair value of net assets acquired</b>	<b>12,139</b>	<b>357</b>
<b>Consideration</b>		
Cash consideration	12,099	357
Fair value of equity interest held before the acquisition date	40	–
<b>Total consideration</b>	<b>12,139</b>	<b>357</b>
<b>Net cash flow</b>		
Cash consideration	(12,099)	(357)
Less cash and cash equivalents acquired	39	4
<b>Net cash outflow</b>	<b>(12,060)</b>	<b>(353)</b>

The acquisition date fair value of acquired loans and trade receivables was \$7,969 million with a gross contractual receivable value of \$7,735 million. The best estimate of contractual cash flows not expected to be collected is \$206 million.

The acquired entities have contributed \$223 million of net operating income and \$10 million net profit after income taxes for the year ended 31 March 2016 including acquisition and integration costs.

If the acquisitions had happened at 1 April 2015, the Consolidated Entity's net operating income would be \$511 million and the net profit after taxes would be \$164 million for the year ended 31 March 2016, excluding acquisition and integration costs.

# Notes to the financial statements

## for the financial year ended 31 March 2016

### continued

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## Note 42

### Acquisitions and disposals of subsidiaries and businesses continued

There were no significant entities or businesses acquired or consolidated due to acquisition of control in the 31 March 2015 comparatives. The 31 March 2015 comparatives principally relate to the following entities or businesses acquired or consolidated due to acquisition of control:

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. Limited.

There was no significant contribution to operating income or profit after income taxes for the acquisitions for the year ended 31 March 2015.

## Note 42

### 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 due to loss of control

IHS Lothian Investments Limited, IHS Lothian Corporate Limited, IHS Lothian Corporate Holdings Limited, MJL Bay Limited, Macquarie Almond Orchard business and Vineyard business, EduWest Equity Trust, EduWest Project Holding Trust, EduWest Project Trust, M-Icheon Company Limited, GGB inBalans Investco B.V, GGB inBalans B.V, Vineyards business, Dacuri Investco Limited, Macquarie Water Heater Rentals Holdings 2, Wala Holdings 2 Limited, Juris Partnership MCHPL Project Holding Trust and Juris Partnership MCHPL Project Trust.

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

	2016 \$m	2015 \$m
<b>Carrying value of net assets disposed of or deconsolidated</b>		
Receivables from financial institutions	31	21
Other assets	45	26
Loan assets held at amortised cost	82	1,313
Property, plant and equipment	183	618
Interests in associates and joint ventures accounted for using the equity method	80	18
Intangible assets	64	76
Other liabilities	(72)	(304)
Payables to financial institutions	(239)	(764)
Non-controlling interest	(2)	2
<b>Total carrying value of net assets disposed of or deconsolidated</b>	<b>172</b>	<b>1,006</b>
<b>Consideration</b>		
Cash consideration	208	1,327
Consideration receivable	17	2
Consideration received in equity	2	6
Investment retained	109	–
<b>Total consideration</b>	<b>336</b>	<b>1,335</b>
<b>Net cash flow</b>		
Cash consideration	208	1,327
Less cash and cash equivalents disposed of or deconsolidated	(31)	(9)
<b>Net cash inflow</b>	<b>177</b>	<b>1,318</b>

The 31 March 2015 comparatives principally relate to the following entities or businesses disposed of or deconsolidated due to loss of control:

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, Limited, Hyperion Investments Australia Pty Limited, Helios Investments Australia Pty Limited, , Wala Holding 1 Limited, , 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 and Delaware Large Cap Core Fund Class I, Macquarie Real estate Korea Limited, UPL (No. 15) Pty, Delaware Investment Advisers, Delaware Capital Management, Delaware Investments Fund Advisers, Macquarie PA TAP Management I Inc., Macquarie NM Management II Inc., Macquarie NM Management I Inc, Macquarie HITIP Management I Inc. and Macquarie Generation Management II Inc.

# Notes to the financial statements

## for the financial year ended 31 March 2016

continued

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### Note 43

#### Events after the reporting date

There were no material events subsequent to 31 March 2016 that have not been reflected in the financial statements.

# Macquarie Group Limited

## Directors' declaration

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In the Directors' opinion:

- a) the financial statements and notes set out on pages 102 to 216 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 2016 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 109 and 110).

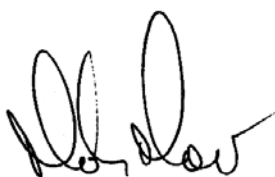
The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* (Cth).

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



**Peter Warne**

Independent Director and  
Chairman



**Nicholas Moore**

Managing Director and  
Chief Executive Officer

Sydney  
6 May 2016

# Independent auditor's report to the members of Macquarie Group Limited



## Report on the financial report

We have audited the accompanying financial report of Macquarie Group Limited (the Company), which comprises the statements of financial position as at 31 March 2016, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the financial 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 financial 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 2016 and of their performance for the financial year ended on that date, and
  - (ii) complying with Australian Accounting Standards 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 64 to 100 of the Directors' Report for the financial year ended 31 March 2016. 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 financial year ended 31 March 2016 complies with section 300A of the *Corporations Act 2001* (Cth).

A stylized, handwritten signature of the PricewaterhouseCoopers firm, written in a cursive script.

**PricewaterhouseCoopers**

A handwritten signature of K.G. Smith, written in a cursive script.

**K.G. Smith**

Partner  
Sydney  
6 May 2016

Liability limited by scheme approved under Professional Standards Legislation.

# Macquarie Group Limited

## Ten year history

The financial information for the full financial years ended 31 March 2007-2016 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.

Financial years ended 31 March	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Income statement (\$ million)</b>										
Total income	7,181	8,248	5,526	6,638	7,665	6,963	6,657	8,132	9,262	10,135
Total expenses	(5,253)	(6,043)	(4,537)	(5,344)	(6,394)	(5,914)	(5,252)	(6,026)	(6,740)	(7,120)
Operating profit before income tax	1,928	2,205	989	1,294	1,271	1,049	1,405	2,106	2,522	3,015
Income tax expense	(377)	(317)	(15)	(201)	(282)	(287)	(533)	(827)	(899)	(927)
Profit for the financial year	1,551	1,888	974	1,093	989	762	872	1,279	1,623	2,088
Macquarie Income Securities distributions	(31)	(34)	(33)	(21)	(26)	(26)	(21)	(18)	(18)	(16)
Macquarie Income Preferred Securities distributions	(54)	(50)	(45)	(8)	(4)	(4)	(4)	(4)	(5)	(1)
Other non-controlling interests	(3)	(1)	(25)	(14)	(3)	(2)	4	8	4	(8)
Profit attributable to ordinary equity holders	1,463	1,803	871	1,050	956	730	851	1,265	1,604	2,063
<b>Statement of financial position (\$ million)</b>										
Total assets	136,389	167,250	149,144	145,940	157,568	153,626	144,748	153,904	187,976	196,755
Total liabilities	128,870	157,189	139,584	134,171	145,636	141,894	132,793	141,990	173,580	181,091
Net assets	7,519	10,061	9,560	11,769	11,932	11,732	11,955	11,914	14,396	15,664
Total loan assets	45,939	53,213	47,080	45,660	47,222	46,380	50,793	58,712	72,762	80,366
Impaired loan assets (net of provisions)	46	121	916	551	340	357	368	365	594	418
<b>Share information</b>										
Dividends per share (cents per share)										
Interim	125	145	145	86	86	65	75	100	130	160
Final	190	200	40	100	100	75	125	160	200	240
Special <sup>(1)</sup>	–	–	–	–	–	–	–	116	–	–
Total	315	345	185	186	186	140	200	376	330	400
Basic earnings per share (cents per share)	591.6	670.6	309.6	320.2	282.5	210.1	251.2	383.6	502.3	619.2
Share price at 31 March (\$)	82.75	52.82	27.05	47.25	36.60	29.08	37.15	57.93	76.67	66.09
Ordinary share capital (million shares)	253.9	274.6	283.4	344.2	346.8	348.6	339.5	321.1	333.5	340.3
Market capitalisation at 31 March (fully paid ordinary shares) (\$ million)	21,010	14,504	7,666	16,263	12,693	10,137	12,613	18,601	25,569	22,491
Net tangible assets per ordinary share (\$)	24.35	30.35	27.89	28.40	28.91	28.12	29.94	31.71	38.19	41.23
<b>Ratios (%)</b>										
Return on average ordinary shareholders' funds	28.1	23.7	9.9	10.1	8.8	6.8	7.8	11.1	14.0	14.7
Ordinary dividend payout ratio	54.3	52.2	60.2	60.4	67.3	66.4	79.0	66.8	67.6	65.7
Expense/income ratio	73.2	73.3	82.1	80.5	83.4	84.9	78.9	74.1	72.8	70.25
Net loan loss as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.1	0.3	1.9	0.8	0.4	0.5	0.4	0.4	0.7	1.0
<b>Assets under management (\$ billion)</b>										
Staff numbers	10,023	13,107	12,716	14,657	15,556	14,202	13,663	13,913	14,085	14,372

<sup>(1)</sup> 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

### Shareholder calendar

#### 2016

Date	Event
6 May	Full-year result announcement
7 June	Payment date for MCN distribution
4 July	Payment date for final ordinary dividend
28 July	AGM
19 September	Payment date for MCN2 distribution
30 September	Financial half-year end
28 October <sup>(1)</sup>	Half-year result announcement
7 December	Payment date for MCN distribution
14 December <sup>(1)</sup>	Payment date for interim ordinary dividend

<sup>(1)</sup> These dates are subject to change.

#### 2017

Date	Event
17 March	Payment date for MCN2 distribution
31 March	Financial year end

### 2016 Annual General Meeting

Macquarie Group's 2016 AGM will be held at 10:30 am on Thursday, 28 July 2016 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 Group Capital Notes 2 (MCN2) are listed on the ASX and trade under the code MQGPB.

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 Exchangeable Capital Securities (Macquarie ECS) are listed on the Singapore Stock Exchange and trade under the stock code 2AQB.

Macquarie Group has debt securities quoted on the London Stock Exchange, Luxembourg Stock Exchange, SIX Swiss Exchange (Switzerland), Singapore Stock Exchange, Tokyo Stock Exchange and the Taipei Exchange (GreTai Securities Market). Macquarie Bank also has warrants quoted on the Luxembourg Stock Exchange, Singapore Stock Exchange, Hong Kong Stock Exchange and the ASX.

### 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 2016 calendar year dividends are as follows:

Dividend announcement date	Record date	Proposed payment date
6 May 2016	18 May 2016	4 July 2016
28 Oct 2016 <sup>(1)</sup>	9 Nov 2016 <sup>(1)</sup>	14 Dec 2016 <sup>(1)</sup>

<sup>(1)</sup> These dates are subject to change.

### Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie shares rather than receiving dividends in cash.

### American Depositary 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](http://bnymellon.com/shareowner)



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## 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](http://macquarie.com/leadership-corporate-governance)

### Macquarie Group Capital Notes (MCN)

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 Group Capital Notes 2 (MCN2)

MCN2 may convert into a variable number of ordinary shares on 18 March 2024 or at other times, subject to various conditions. Holders of MCN2 have no voting rights in respect of Macquarie Group Limited prior to conversion.

### 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)

As holders of a stapled security that includes a preference share issued by Macquarie Bank, MIS holders 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. These preference shares are held by Macquarie BH Pty Limited. The shares convey 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, MCN or MCN2 security holding are invited to contact the Share Registry at:

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000 Australia

Telephone (within Australia): 1300 554 096  
Telephone (International): +61 1300 554 096

Email: [macquarie@linkmarketservices.com.au](mailto:macquarie@linkmarketservices.com.au)  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

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](mailto:macquarie.shareholders@macquarie.com)  
Website: [macquarie.com/investors](http://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, please visit [macquarie.com/investors](http://macquarie.com/investors)

# Additional Investor Information

continued

## Fully paid ordinary shares

### Twenty largest ordinary shareholders at 25 April 2016:

	Ordinary Shares	% of Ordinary Shares
HSBC Custody Nominees (Australia) Limited	75,619,324	22.22
JP Morgan Nominees Australia Limited	55,820,646	16.40
National Nominees Limited	30,502,308	8.96
Citicorp Nominees Pty Limited	21,276,974	6.25
Bond Street Custodians Limited <MEREP Trustee – RSU Allocated>	17,068,852	5.02
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	9,752,190	2.87
BNP Paribas Noms Pty Ltd <DRP>	9,451,173	2.78
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	6,484,694	1.91
Bond Street Custodians Limited <MEREP Trustee – Unallocated>	3,331,229	0.98
Argo Investments Limited	2,355,151	0.69
AMP Life Limited	2,160,799	0.63
HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super Corp A/C>	2,035,835	0.60
Bond Street Custodians Limited <Solium Capital Aus Pty Ltd>	1,620,130	0.48
Mr Nicholas Moore <sup>(1)</sup>	1,483,823	0.44
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	1,467,525	0.43
UBS Nominees Pty Ltd	898,922	0.26
Milton Corporation Limited	638,649	0.19
RBC Investor Services Australia Nominees Pty Limited <PI POOLED A/C>	527,732	0.16
EG Holdings Pty Ltd	519,090	0.15
Australian Foundation Investment Company Limited	466,981	0.14
<b>Total</b>	<b>243,482,027</b>	<b>71.55</b>

<sup>(1)</sup> This is the aggregate of a number of holdings held by Mr Moore. He also has a relevant interest in shares held by Venamay Pty Limited, as well as his MEREP holdings.

## Substantial shareholders

At 25 April 2016 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 25 April 2016 are as follows:

Range	Shareholders	Shares
1 – 1,000	94,392	28,449,611
1,001 – 5,000	17,995	34,058,444
5,001 – 10,000	1,201	8,256,032
10,001 – 100,000	617	15,059,723
100,001 shares and over	77	254,478,579
<b>Total</b>	<b>114,282</b>	<b>340,302,389</b>

2,932 shareholders (representing 8,314 fully paid shares) held less than a marketable parcel.

## Unlisted securities

- 111,246 exchangeable shares on issue at 25 April 2016 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
- 48,305 exchangeable shares on issue at 25 April 2016 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 25 April 2016 3,028,254 DSUs and 1,629,738 PSUs are held by participants in the MEREP.

## Macquarie Group Capital Notes

Twenty largest MCN holders at 25 April 2016:	MCN	% of MCN
Questor Financial Services Limited <TPS RF A/C>	353,292	5.89
National Nominees Limited	157,742	2.63
HSBC Custody Nominees (Australia) Limited	137,918	2.30
Navigator Australia Ltd <MLC Investment Sett A/C>	106,602	1.78
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	90,415	1.51
Questor Financial Services Limited <TPS PIP A/C>	62,329	1.04
JP Morgan Nominees Australia Limited	60,429	1.01
Australian Executor Trustees Limited <No 1 Account>	57,345	0.96
HSBC Custody Nominees (Australia) Limited - A/C 2	55,666	0.93
BNP Paribas Noms Pty Ltd <DRP>	51,663	0.86
UBS Wealth Management Australia Nominees Pty Ltd	48,977	0.82
Longhurst Management Services Pty Ltd	38,152	0.64
Netwealth Investments Limited <Wrap Services A/C>	32,324	0.54
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
Netwealth Investments Limited <Super Services A/C>	22,697	0.38
UBS Nominees Pty Ltd	22,240	0.37
Sandhurst Trustees Ltd <DMP Asset Management A/C>	20,885	0.35
Mutual Trust Pty Ltd	16,720	0.28
Brownbuilt Pty Ltd	16,477	0.27
<b>Total</b>	<b>1,409,873</b>	<b>23.50</b>

## Spread of Macquarie Group Capital Notes

Details of the spread of MCN holdings at 25 April 2016 were as follows:

Range	Noteholders	Notes
1 – 1,000	8,256	2,751,091
1,001 – 5,000	649	1,358,796
5,001 – 10,000	37	297,840
10,001 – 100,000	29	836,719
100,001 securities and over	4	755,554
<b>Total</b>	<b>8,975</b>	<b>6,000,000</b>

4 noteholders (representing 13 MCN) held less than a marketable parcel.

# Additional Investor Information

continued

## Macquarie Group Capital Notes 2

Twenty largest MCN2 holders at 25 April 2016:	MCN2	% of MCN2
UBS Wealth Management Australia Nominees Pty Ltd	180,498	3.40
National Nominees Limited	116,708	2.20
HSBC Custody Nominees (Australia) Limited	81,402	1.53
Navigator Australia Ltd <MLC Investment Sett A/C>	79,932	1.51
JP Morgan Nominees Australia Limited	73,948	1.39
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	71,229	1.34
Questor Financial Services Limited <TPS RF A/C>	57,850	1.09
Citicorp Nominees Pty Limited	50,840	0.96
Dimbulu Pty Ltd	50,000	0.94
G Harvey Nominees Pty Ltd <Harvey 1995 A/C>	50,000	0.94
Pershing Australia Nominees Pty Ltd <Implemented Portfolios A/C>	37,880	0.71
Board of Benevolence and of Aged Masons Widows <Orphans Fund A/C>	34,500	0.65
The Australian National University	30,000	0.56
Ms Sihai Hou	21,000	0.40
G C F Investments Pty Ltd	18,000	0.34
Mr Ju Kim + Ms Ying Xia Wu <Kim Family A/C>	17,040	0.32
AK Plastics Pty Ltd <Andrew Kohn Staff S/F A/C>	15,000	0.28
Gandino Pty Ltd	15,000	0.28
Neboda Pty Ltd	15,000	0.28
Ms Fang Wang	15,000	0.28
<b>Total</b>	<b>1,030,827</b>	<b>19.40</b>

## Spread of Macquarie Group Capital Notes 2

Details of the spread of MCN2 holdings at 25 April 2016 were as follows:

Range	Noteholders	Notes
1 – 1,000	6,362	2,172,573
1,001 – 5,000	733	1,570,487
5,001 – 10,000	50	382,377
10,001 – 100,000	31	887,278
100,001 securities and over	2	297,206
<b>Total</b>	<b>7,178</b>	<b>5,309,921</b>

4 noteholders (representing 13 MCN2) held less than a marketable parcel.

## Macquarie Exchangeable Capital Securities

As at 25 April 2016, 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	<i>Corporations Act 2001</i> (Cth)
ADI	authorised deposit-taking institution
ADR	American Depositary 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 2016 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
Businesses	the areas within the Operating Group carrying out various operations
CA	Credit Assurance
CAF	Corporate and Asset Finance Group
CAGR	compound annual growth rate
CCB	capital conservation buffer
CDP	Carbon Disclosure Project
Central Service Groups	the Central Service Groups consist of RMG, LGL, FMG and COG
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 Company	Macquarie Group Limited
Comparable Key Management Personnel (Comparable KMP)	Executive KMP who were members of the Executive Committee for the full year in both FY2016 and FY2015
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)
Divisions	named divisions within the Group
DPS Plan	Directors Profit Share Plan
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

# Glossary

## continued

ECM	equity capital markets
EMEA	Europe, Middle East and Africa
Environmental Management Plan (EMP)	Macquarie's internal framework of actions and targets to manage and reduce the environmental impact of its direct operations. The Plan covers Macquarie's corporate offices and associated corporate activities such as travel and procurement
EPS	earnings per share
ERL	Equity Risk Limit
ESP	Macquarie Group Employee Share Plan
ESG	Environmental, Social and Governance
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
Loss Given Default (LGD) Estimate	Macquarie Group's estimated economic loss should a counterparty default occur
LTIFR	Lost Time Injury Frequency Rate
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	Division Directors and Executive Directors who have management or risk responsibility for a division or business area
MBHPL	Macquarie B.H. Pty Limited
MBL	Macquarie Bank Limited
MCN	Macquarie Group Capital Notes
MCN2	Macquarie Group Capital Notes 2
MEIF1	Macquarie European Infrastructure Fund 1
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
MIC	Macquarie Infrastructure Company
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
MIS	Macquarie Income Securities
MLL	Macquarie Life Limited
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, CFM, Macquarie Capital, MAM 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
PRI	Principles of Responsible Investment
Probability of Default (PD) Estimate or MQ Rating	An estimate of the likelihood of the rated entity defaulting on its financial obligations to Macquarie over the period of a year and should look 'through the cycle' – i.e. represent the probability of default in neutral economic conditions.
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
Senior Executive	Macquarie's combined Division Director and Executive Director population.
Senior Management	Members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation
SEs	structured entities
SFE	Sydney Futures Exchange
SRI	Socially Responsible Investing
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
SVA	Social Ventures Australia
tCO <sub>2</sub> -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)

# Glossary

## continued

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





