



MACQUARIE BANK

# 2017 Annual Report

**Macquarie Bank**

Year ended 31 March 2017

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### **2017 Annual General Meeting**

Macquarie Bank Limited's 2017 Annual General Meeting (AGM) will be held in the Conference Room of Macquarie's Melbourne Office, Level 23, 101 Collins Street, Melbourne VIC 3000, after the Macquarie Group Limited AGM, but not earlier than 2:00pm on Thursday, 27 July 2017.

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

### **Cover Image**

The migration of people from rural to urban areas has transformed society and is a major driver of productivity, economic growth and improved living standards across the globe. With 70% of the world's population expected to live in urban centres by 2050, the challenge for authorities in developed and emerging economies is to plan cities that embrace connection and allow for the easy movement of people, goods and ideas.

*The Macquarie name and Holey Dollar device are registered trade marks of Macquarie Group Limited ACN 122 169 279.*

### **Making dollars from cents**

Macquarie sees opportunity when others don't – and seizes the moment to create new value for clients.

It was a quality found in our namesake, Governor Lachlan Macquarie. Faced with an acute currency shortage in 1813, he purchased Spanish silver dollars, punched out their centres and created two new coins. The 'Holey Dollar' was born. This brilliant solution not only doubled the number of coins in circulation, it increased their total worth by 25%.

To this day, Macquarie still draws on this innovation and pragmatism to identify new opportunities and unlock their potential.

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Macquarie Bank Limited is a subsidiary of Macquarie Group Limited ACN 122 169 279 and is regulated by the Australian Prudential Regulation Authority (APRA) as an authorised deposit-taking institution (ADI). Macquarie Group Limited is regulated by APRA as a non-operating holding company of an ADI.



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# OPERATING AND FINANCIAL REVIEW

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## OPERATING AND FINANCIAL REVIEW

### REVIEW OF PERFORMANCE AND FINANCIAL POSITION

#### PERFORMANCE

Macquarie Bank's consolidated net profit attributable to ordinary equity holders of \$A1,221 million for the year ended 31 March 2017 decreased 42% from \$A2,090 million, which included a profit from discontinued operations of \$A1,040 million, in the prior year. The net profit this year from continuing operations was up 16% on the prior year.

	Full year to 31 Mar 2017 \$A million	Full year to 31 Mar 2016 \$A million	Movement %
Net operating income	5,821	5,643	3
Total operating expenses	(4,088)	(3,907)	5
Income tax expense	(509)	(681)	(25)
Profit from continuing operations (net of income tax)	1,224	1,055	16
Profit from discontinued operations (net of income tax)	–	1,040	(100)
Loss attributable to non-controlling interests	12	11	9
Distribution on Macquarie Income Securities	(15)	(16)	(6)
Profit attributable to ordinary equity holders	1,221	2,090	(42)

#### Discontinued Operations

Profit from discontinued operations (net of income tax) in the prior year of \$A1,040 million represents profit from the sale of the Macquarie Investment Management (MIM) business to Macquarie Financial Holdings Pty Limited and its subsidiaries on 15 April 2015, as well as profit earned by MIM up until the sale date.

#### Continuing Operations

##### Macquarie Bank's annuity-style businesses

Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) generated a combined net profit contribution for the year ended 31 March 2017 of \$A1,752 million, up 13% on the prior year. The key performance drivers included:

##### MAM ↓ 28% on FY2016

- strong performance from the MSIS business
- prior year benefited from a gain on the sale of the almond orchard.

##### CAF ↑ 6% on FY2016

- full year profit contribution from the AWAS aircraft operating lease portfolio and the Esanda dealer finance portfolio that were acquired during the prior year
- lower charges for provisions and impairments
- income from prepayments and realisations broadly in line with the prior year.

Partially offset by:

- reduced income from lower volumes in the Lending portfolio
- unfavourable impact of foreign currency movements, particularly for those businesses with activities and portfolios denominated in British Pounds.

##### BFS ↑ 47% on FY2016

- growth in Australian lending, deposit and platform average volumes
- sale of Macquarie Life's risk insurance business.

Partially offset by:

- disposal of the US mortgages portfolio
- increased impairment charges predominately on equity investments and intangible assets
- change in approach to the capitalisation of software expenses in relation to the Core Banking platform
- prior year included a performance fee and dividend in respect of the sale of a UK asset.

##### Macquarie Bank's capital markets facing businesses

Commodities and Global Markets (CGM) delivered a net profit contribution for the year ended 31 March 2017 of \$A875 million, up 20% on the prior year. The key performance drivers included:

##### CGM<sup>(1)</sup> ↑ 20% on FY2016

- strong client flows and revenues from fixed income, credit and futures businesses
- increased investment-related income from the sale of a number of investments, mainly in energy and related sectors
- lower provisions and impairment charges compared to the prior year.

Partially offset by:

- challenging market conditions and limited trading opportunities in equities compared to the prior year, which benefited from strong activity, particularly in China
- reduced trading opportunities across the commodities platform compared to a strong prior year
- equity capital markets income impacted by subdued market conditions in Australia.

(1) Formerly Macquarie Securities Group and Commodities and Financial Markets.

## Net operating income

Net operating income of \$A5,821 million for the year ended 31 March 2017 increased 3% from \$A5,643 million in the prior year. Decreases across net interest and trading income and fee and commission income were offset by an increase in net gains on sale of investments and businesses, and lower provisions for impairment. Key performance drivers included:

### Net interest and trading income

Full year to		
31 Mar 2017 \$A million	31 Mar 2016 \$A million	
<b>3,837</b>	4,296	<b>↓ 11%</b> on prior year

- CGM had limited trading opportunities in equity markets compared to the prior year which benefited from strong activity, particularly in China
- lower loan volumes in CAF's Lending portfolio and increased funding costs due to the full-year impact of funding the AWAS portfolio
- reduced trading opportunities across CGM's commodities platform compared to a strong prior year.

Partially offset by:

- growth in average volumes and improved margins across the Australian loan portfolios in BFS; and higher deposit volumes
- ongoing volatility in CGM's foreign exchange and interest rates markets, combined with improved performance of high yield debt markets and specialty lending products
- the full-year contribution from CAF's Esanda dealer finance portfolio.

### Fee and commission income

Full year to		
31 Mar 2017 \$A million	31 Mar 2016 \$A million	
<b>820</b>	930	<b>↓ 12%</b> on prior year

- CGM's brokerage and commissions income down on the prior year, mainly in equities markets due to reduced client trading activity.

### Net operating lease income

Full year to		
31 Mar 2017 \$A million	31 Mar 2016 \$A million	
<b>922</b>	881	<b>↑ 5%</b> on prior year

- full year contribution of CAF's AWAS portfolio acquisition during the prior year.

Partially offset by:

- unfavourable foreign currency movements in CAF
- sale of nine aircraft from CAF's portfolio during the year.

### Share of net (losses)/profits of associates and joint ventures accounted for using the equity method

Full year to		
31 Mar 2017 \$A million	31 Mar 2016 \$A million	
<b>(19)</b>	22	<b>↓</b> on prior year

- non-recurrence of prior year equity accounted gains on certain legacy real estate related investments in Corporate.

### Other operating income and charges

Full year to		
31 Mar 2017 \$A million	31 Mar 2016 \$A million	
<b>261</b>	(486)	<b>↑</b> on prior year

- sale of Macquarie Life's risk insurance business to Zurich Australia Limited by BFS
- sale of an interest in a US toll road by CAF's Lending business
- sale of a number of investments in the energy and related sectors in CGM
- lower charges for provisions and impairments across most Operating Groups; largest decrease in CGM as a result of reduced exposures to underperforming commodity-related loans.

## OPERATING AND FINANCIAL REVIEW

### REVIEW OF PERFORMANCE AND FINANCIAL POSITION

CONTINUED

#### Operating expenses

Total operating expenses increased 5% to \$A4,088 million for the year ended 31 March 2017 from \$A3,907 million in the prior year.

Key performance drivers included:

#### Employment expenses

Full year to	
31 Mar 2017	31 Mar 2016
\$A million	\$A million
<b>1,487</b>	1,428

**↑ 4%**  
on prior year

- increased share-based payments expense relating to increased retained equity awards granted in previous years
- higher performance-related remuneration expense, largely driven by the improved overall performance of the Operating Groups
- fixed remuneration up due to a small increase in average headcount mainly driven by the acquisition of Esanda by CAF in the prior year, and pay increases, largely offset by headcount reductions across most other Operating Groups.

Partially offset by:

- favourable foreign currency movements.

#### Occupancy expenses

Full year to	
31 Mar 2017	31 Mar 2016
\$A million	\$A million
<b>118</b>	112

**↑ 5%**  
on prior year

- full year impact of additional premises associated with business acquisitions and offshore growth.

Partially offset by:

- favourable foreign currency movements.

#### Other operating expenses

Full year to	
31 Mar 2017	31 Mar 2016
\$A million	\$A million
<b>1,699</b>	1,576

**↑ 8%**  
on prior year

- a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in BFS.

#### Brokerage, commission and trading-related expenses

Full year to	
31 Mar 2017	31 Mar 2016
\$A million	\$A million
<b>626</b>	640

**↓ 2%**  
on prior year

- reduced equities and commodities-related trading activity in CGM.

#### Non-salary technology expenses

Full year to	
31 Mar 2017	31 Mar 2016
\$A million	\$A million
<b>158</b>	151

**↑ 5%**  
on prior year

- elevated project activity in BFS.

#### Income tax expense

Income tax expense for the year ended 31 March 2017 was \$A509 million, a 25% decrease from \$A681 million in the prior year. The decrease was mainly due to changes in the geographic composition of earnings, with increased income being generated in Australia and the UK, and lower income in the US, combined with reduced tax uncertainties.

The effective tax rate for the year ended 31 March 2017 was 29.2%, down from 39.0% in the prior year.



## FINANCIAL POSITION

### Balance sheet

Macquarie Bank's balance sheet has been impacted by changes in business activities and Treasury management initiatives during the year ended 31 March 2017.

#### Total Assets

Full year to	
31 Mar 2017	31 Mar 2016
\$A billion	\$A billion
<b>167.4</b>	181.6

↓ **8%**  
on prior year

- Receivables from financial institutions of \$A25.6 billion at 31 March 2017 decreased 17% from \$A31.0 billion at 31 March 2016 mainly due to the maturity of reverse repurchase positions held by Treasury, with the proceeds utilised to extinguish short and long term debt of the Consolidated Entity
- Derivative assets at 31 March 2017 of \$A12.1 billion (down 33% from \$A18.0 billion at 31 March 2016) and Derivative liabilities of \$A11.1 billion (down 25% from \$A14.7 billion at 31 March 2016) both decreased mainly as a result of settlements and price movements in underlying physical commodities, particularly energy-related commodities, as well as the revaluation of interest rate and foreign exchange derivatives
- Investment securities available for sale of \$A5.2 billion at 31 March 2017 decreased 42% from \$A9.0 billion at 31 March 2016 mainly due to Treasury's funding and liquidity management activities during the year
- Loan assets held at amortised cost of \$A75.6 billion at 31 March 2017 decreased 4% from \$A78.9 billion at 31 March 2016. Most businesses saw a reduction in volumes, including:
  - CAF's loan and finance lease portfolio decreased 8% to \$A26.3 billion at 31 March 2017 from \$A28.7 billion at 31 March 2016 mainly driven by repayments and realisations in the Lending loan portfolio and the impact of unfavourable foreign currency movements on year end balances
  - BFS' disposal of the US mortgage portfolio and the run down of the Canadian mortgage portfolio, partially offset by increased Australian loan volumes
- Property, plant and equipment of \$A10.7 billion at 31 March 2017 decreased 5.0% from \$A11.3 billion at 31 March 2016 mainly due to the depreciation of the aviation portfolio and the sale of nine aircraft by CAF
- Trading portfolio assets of \$A26.6 billion at 31 March 2017 increased 16% from \$A23.1 billion at 31 March 2016 mainly due to increased equities-related trading activities, additional holdings of physical commodities, particularly oil, and an increase in holdings of government and corporate bonds within CGM
- Other assets of \$A8.6 billion (up 25% from \$A6.9 billion at 31 March 2016) and Other liabilities of \$A9.4 billion (up 32% from \$A7.1 billion at 31 March 2016) increased mainly as a result of an increase in unsettled trade balances in CGM.

#### Total Liabilities

Full year to	
31 Mar 2017	31 Mar 2016
\$A billion	\$A billion
<b>154.8</b>	168.9

↓ **8%**  
on prior year

- Impacted by Treasury's funding and liquidity management activities during the year, including the repayment of short and long term Debt issued at amortised cost (down 22% to \$A43.1 billion at 31 March 2017 from \$A55.1 billion at 31 March 2016)
- Deposits increased 10% to \$A57.7 billion at 31 March 2017 from \$A52.2 billion at 31 March 2016, while Payables to financial institutions of \$A14.2 billion at 31 March 2017 decreased 31% from \$A20.6 billion at 31 March 2016 mainly due to the repayment of the Esanda syndicated facility
- Loan capital of \$A4.6 billion increased 13% from \$A4.1 billion mainly due to the issuance of \$US750 million of Macquarie Additional Capital Securities in March 2017, partially offset by the buy-back of subordinated debt during the year.

#### Total Equity

Full year to	
31 Mar 2017	31 Mar 2016
\$A billion	\$A billion
<b>12.6</b>	12.7

↓ **1%**  
on prior year

- Lower Reserves, including a reduction in the Foreign currency translation reserve driven by the appreciation of the Australian Dollar against major currencies since 31 March 2016
- Retained earnings generated during the year were offset by dividends paid.

## OPERATING AND FINANCIAL REVIEW

### REVIEW OF PERFORMANCE AND FINANCIAL POSITION

CONTINUED

#### Funding

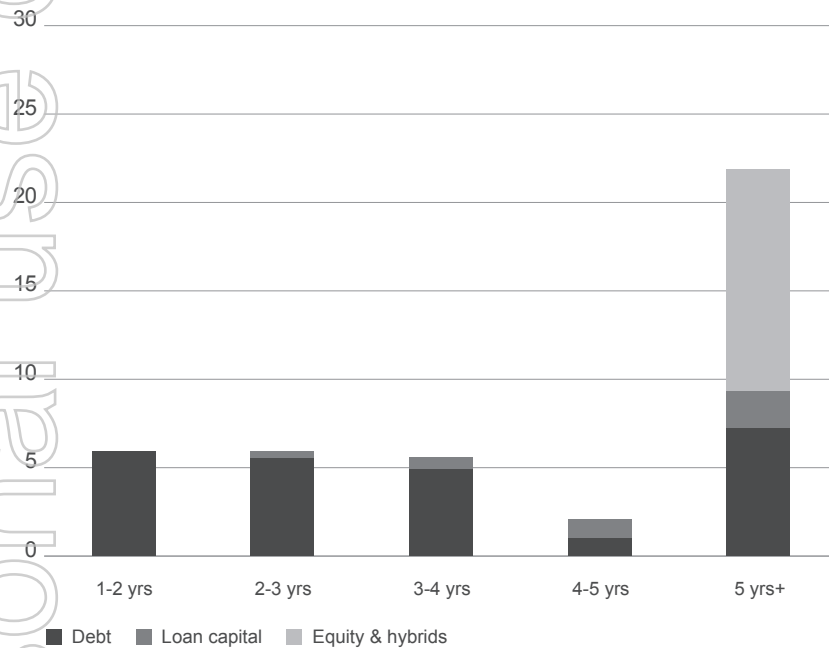
Macquarie Bank's liquidity risk management framework is designed to ensure that it is able to meet its funding requirements as they fall due under a range of market conditions.

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.6 years at 31 March 2017.

#### Term funding profile

Detail of drawn term funding maturing beyond one year

\$A billion



# 4.6yrs

The weighted average term to maturity of term funding maturing beyond one year at 31 March 2017

Macquarie Bank has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2016, Macquarie Bank has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2016 and 31 March 2017:

		Total \$A billion
Secured Funding	Term securitisation and other secured finance	2.9
Term Loan	AWAS term loan	2.4
Issued paper	Senior and subordinated	0.5
Macquarie Additional Capital Securities (MACS)	Perpetual subordinated capital securities	1.0
Loan facilities	MGL and MBL loan facilities	0.3
<b>Total</b>		<b>7.1</b>

Macquarie Bank has continued to develop and expand its major funding markets and products during the year ended 31 March 2017.

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### Capital

Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk-weighted assets of 8.5% including the 2.5% capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels. The minimum BCBS Basel III leverage ratio requirement of 3% is effective from 1 Jan 2018<sup>(1)</sup>.

Macquarie Bank is well capitalised, with the following capital adequacy ratios as at 31 March 2017.

Bank Group Basel III ratios as at 31 Mar 2017	Harmonised Basel III <sup>(2)</sup>	APRA Basel III
Common Equity Tier 1 Capital Ratio	13.3%	11.1%
Tier 1 Capital Ratio	15.6%	13.3%
Leverage Ratio	7.3%	6.4%



For further information relating to the capital adequacy of Macquarie Bank, refer to section 6.0 Capital of the Management Discussion and Analysis available at [macq.co/FY17MDA](http://macq.co/FY17MDA)



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

(1) APRA has not yet prescribed a minimum capital requirement for the leverage ratio.

(2) 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework.

## OPERATING AND FINANCIAL REVIEW

### BUSINESS STRATEGY

Consistent with our *What We Stand For* principles Macquarie Group (MGL and its subsidiaries), including Banking Group entities, adopts a business strategy focused on the medium-term with the following key aspects:

#### Risk management approach

Adopting a conservative approach to risk management. Macquarie Group's robust risk management framework is embedded across all Operating and Central Service Groups. This equips the business for unanticipated disruptions and ensures that both the relevant business and Macquarie Group can survive a worst-case outcome from any new or existing activity.

#### Strong balance sheet

Maintaining a strong and conservative balance sheet. This is consistent with Macquarie Group's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie Group 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.

#### Business mix

Conducting a mix of annuity-style and capital markets facing businesses that deliver solid returns in a range of market conditions. Macquarie Group has dynamically developed its annuity-style businesses, providing steady returns to the business and Macquarie Group shareholders and certainty to clients.

#### Diversification

Operating a diversified set of businesses across different locations and service offerings including banking and financial services. Macquarie Group offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to Macquarie Group, as highlighted in the challenging global markets of recent years.

#### Proven expertise

Utilising proven deep expertise has allowed Macquarie Group to establish leading market positions as a global specialist in sectors including infrastructure, resources and commodities, energy, financial institutions and real estate. This is coupled with a deep knowledge of Asia-Pacific financial markets.

#### Adjacencies

Expanding progressively by pursuing adjacencies through organic opportunities and selective acquisitions. These include products and geographies adjacent to Macquarie Group's established areas of expertise. This results in sustainable evolutionary growth.

#### Pursuit of growth opportunities

Targeting continued evolution and growth through innovation. Macquarie Group starts with real knowledge and skill, and encourages ingenuity and entrepreneurial spirit coupled with accountability. Ideas for new businesses are typically generated in the Operating businesses. Additionally, there are no specific businesses, markets, or regions in which Macquarie Group'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.

## OPERATING AND FINANCIAL REVIEW

### RISK MANAGEMENT

Macquarie Group recognises that a sound risk culture is a fundamental requirement of an effective risk management framework. Macquarie Group's risk culture is well established and the risk management framework is embedded across all operations.

#### Opportunity

#### Accountability

#### Integrity

The long-held foundations of Macquarie Group'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 Group's businesses. Strong independent prudential management has been a key to Macquarie Group'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.



Refer to the Risk Management Report in the MGL Annual Report for details on Macquarie Group's risk management framework, risk culture and conduct risk management.

### Macroeconomic factors

The key macroeconomic risks to Macquarie Bank's short and medium-term financial outlook noted on page 12 are;

#### 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 CGM 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 Bank on its balance sheet.

#### The value of the Australian dollar

A significant proportion of Macquarie Bank's net income is denominated in foreign currency. Therefore, net income will be lower in Australian dollar terms if it appreciates against these currencies.

#### Potential regulatory changes

Macquarie Bank, like all financial institutions, is affected by changes in regulation. Regulatory change continues to be developed at both the global and Australian levels and has the potential to affect the capital adequacy, funding and profitability of businesses.

#### Funding and liquidity

Macquarie Bank uses deposit and debt markets to fund its assets. Macquarie Bank is therefore exposed to the risk of an increase in the cost of funding, or of reduced access to funding sources, which could affect the volume of income earning assets and the margin earned on those assets.

In addition, there are specific risks which relate to the nature of Macquarie Group's operations. These include conduct, credit, cyber, environmental and social (including climate change), equity, legal, liquidity, market, model, operational, regulatory and compliance, reputation and tax risks. All of these risks, including those mentioned above are monitored, mitigated and managed under Macquarie Group's risk management framework.



Further details on the management of these risks are available at [macquarie.com/risk-management](http://macquarie.com/risk-management)

The risk management framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie Group that applies to all Macquarie businesses (including Banking Group entities). The framework is supported by a Macquarie-wide approach to policies and procedures. The Risk Management Group (RMG) consistently adopts the same level of rigour in relation to risk acceptance, monitoring and reporting for all Macquarie entities.

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## OPERATING AND FINANCIAL REVIEW

### RISK MANAGEMENT

CONTINUED

The core risk management principles underlying the framework have remained stable and continue to be effective.

– **ownership of risk at the business level:**

Group Heads are responsible for identifying risks within their businesses 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 Group.

– **understanding worst case outcomes:**

Highly experienced professionals at Macquarie Group use both quantitative and qualitative inputs to examine the consequences of worst case outcomes and determine whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, the market risk management framework is based primarily on the application of stress tests, rather than statistical models. Macquarie Group applies limits to contingent losses from worst case scenarios that include market movements larger than have occurred historically, for example, 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 Group has over 14,000 contingent loss limits that consider a variety of worst case scenarios.

– **requirement for an independent sign-off by risk management:**

Macquarie Group 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. 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.

## OUTLOOK

Macquarie Bank currently expects that the combined net profit contribution from Operating Groups for the financial year ending 31 March 2018 will be broadly in line with the financial year ended 31 March 2017.

The tax rate for the financial year ending 31 March 2018 is currently expected to be broadly in line with the financial year ended 31 March 2017.

Macquarie Bank's short-term outlook remains subject to market conditions, the impact of foreign exchange and potential regulatory changes and tax uncertainties.

Macquarie Bank 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.

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# DIRECTORS' REPORT



Directors' Report

Schedule 1 – Directors' experience and special responsibilities

Schedule 2 – Remuneration Report

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2

## **DIRECTORS' REPORT**

### **FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**

The Directors of MBL submit their report with the financial report of the Consolidated Entity and the Company for the year ended 31 March 2017.

#### **DIRECTORS**

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

##### **Independent Directors**

P.H. Warne, Chairman  
 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 Directors**

M.J. Reemst, Managing Director and Chief Executive Officer  
 N.W. Moore

The Directors listed above each held office as a Director of MBL throughout the financial year ended 31 March 2017. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

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

#### **PRINCIPAL ACTIVITIES**

The principal activity of MBL during the financial year ended 31 March 2017 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. MBL is a subsidiary of MGL and is regulated by the APRA as an authorised deposit-taking institution (ADI). 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.

#### **RESULT**

The financial report for the financial years ended 31 March 2017 and 31 March 2016, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2017 was \$A1,221 million (2016: \$A2,090 million). This result represents profit from continuing operations of \$A1,221 million (2016:\$A1,050 million) and profit from discontinued operations of \$A nil (2016:\$A1,040 million).

For persons

Directors' Report  
 Schedule 1 – Directors' experience and special responsibilities  
 Schedule 2 – Remuneration Report

## DIVIDENDS AND DISTRIBUTIONS

MBL paid dividends and paid or provided distributions during the financial year as set out in the table below:

Security	Payment Date	Payment Type	\$A million	In respect of financial year ended/period	
Ordinary Shares	11 May 2016	Final	644.0	31 March 2016	Paid
	9 November 2016	Interim	582.0	31 March 2017	Paid
Macquarie Income Securities (MIS) <sup>(1)</sup>	15 April 2016	Periodic	4.0	15 January 2016 to 14 April 2016	Paid
	15 July 2016	Periodic	4.0	15 April 2016 to 14 July 2016	Paid
	17 October 2016	Periodic	3.7	15 July to 14 October 2016	Paid
	16 January 2017	Periodic	3.5	15 October 2016 to 14 January 2017	Paid
	17 April 2017	Periodic	2.9	15 January 2017 to 31 March 2017	Provided

Subsequent to the year ended 31 March 2017 the Directors have resolved to pay a final ordinary dividend of \$A607 million on 11 May 2017.

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

### STATE OF AFFAIRS

There were no other significant changes in the state of 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 Section 1 of this Annual Report for the following in respect of the Consolidated Entity, which includes:

- a review of the 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.

(1) MIS are stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note), and a preference share in MBL. The MIS are quoted on the ASX. The MIS distributions set out above represent payment as made, or to be made, by MBL to its members. The MIS are classified as equity under Australian Accounting Standards – see Note 27 and Note 28 to the financial statements in the Financial Report for further information on the MIS and MIS distributions.

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**DIRECTORS' REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**  
 CONTINUED

**DIRECTORS' RELEVANT INTERESTS**

At the date of this report, none of the Directors held a relevant interest, as required to be notified by the Directors to the Australian Securities Exchange (ASX) in accordance with the *Corporations Act 2001 (Cth)* (the Act), in ordinary shares or share options of MBL. The relevant interests of Directors in MBL securities, managed investment schemes made available by related companies of MBL and other disclosable relevant interests are listed in the table below:

Name and position	Direct and indirect interests	Number held
<b>Executive Voting Directors</b>		
M.J. Reemst	Macquarie ordinary shares (MQG)	10,850
	Macquarie Group Retained Equity Plan (MEREP) Restricted Share Units (RSUs)	88,177
	MEREP Performance Share Units (PSUs)	52,708
	MQG	2,109,147
N.W. Moore	MEREP RSUs	613,701
	MEREP PSUs	229,762
	2004 Macquarie Timber Land Trust units	50
	2006 Macquarie Timber Land Trust units	75
	Macquarie Global Infrastructure Fund III (B) units	2,163,106
<b>Independent Directors</b>		
G.R. Banks	MQG	6,416
G.M. Cairns	MQG	12,734
	MIS	900
M.J. Coleman	MQG	7,199
	Macquarie Group Capital Notes 2 (MCN2)	2,000
P.A. Cross	MQG	7,636
D.J. Grady	MQG	8,003
	Macquarie Group Capital Notes (MCN)	400
	MCN2	100
M.J. Hawker	MQG	7,335
	MCN2	500
N.M. Wakefield Evans	MQG	4,411
P.H. Warne	MQG	14,933

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## MEETING ATTENDANCE

### Board and Board Committee meetings and attendance

The number of meetings of the Board of Directors (the Board) and of the Committees of the Board and the individual attendance by Directors at those meetings which they were eligible to attend during the financial year is summarised in the table below:

	Regular Board Meetings <sup>(2)</sup>	BAC meetings <sup>(2)</sup>	BRiC meetings <sup>(2)</sup>	Special Board Meetings <sup>(2)</sup>
Number of Meetings	10	7	6	2
P.H. Warne	10/10	–	6/6	2/2
M.J. Reemst	10/10	–	–	2/2
N.W. Moore	10/10	–	–	2/2
G.R. Banks	10/10	–	6/6	2/2
G.M. Cairns	9/10	–	5/6	2/2
M.J. Coleman	10/10	7/7	6/6	2/2
P.A. Cross	10/10	7/7	6/6	2/2
D.J. Grady	10/10	–	6/6	2/2
M.J. Hawker	10/10	7/7	5/6	2/2
N.M. Wakefield Evans	10/10	7/7	6/6	2/2

The Macquarie Board Audit Committee (BAC) is a joint committee of MGL and MBL. The BAC assists the Boards of MGL and MBL in fulfilling the responsibility for oversight of the quality and integrity of the accounting and financial reporting practices of Macquarie.

The Macquarie Board Risk Committee (BRiC) is a joint committee of MGL and MBL. The membership of the Committee consists of all the Non-Executive Voting Directors (NEDs) of Macquarie. The BRiC assists the Boards of MGL and MBL by providing oversight of the implementation and operation of Macquarie's risk management framework and advising the Boards on Macquarie's risk position, risk appetite, risk culture and risk management strategy.

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 Warne, Mr Moore, Ms Reemst, Mr Coleman and the Chief Financial Officer, Mr Upfold.

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

The Chairman of the Board, Macquarie CEO and the MBL CEO, attend BAC meetings by invitation as a matter of course. The Macquarie CEO and MBL CEO attend BRiC meetings as a matter of course.

### DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE

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

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

Following approval by shareholders at the 1998 Annual General Meeting (AGM), MBL entered into a Deed of Indemnity, Access and Insurance dated 4 August 1998 (Deed), which protects Directors acting as Directors during their term of office and after their resignation (except where an individual engages in conduct involving a lack of good faith). Minor changes were made to the Deed under approvals obtained from shareholders at the 2000 AGM.

(2) Number of meetings attended by the member / total number of meetings eligible to attend as a member.

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## DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 CONTINUED

Under the Deed, MBL agrees to:

- indemnify a current or past Director to the full extent of the indemnity given in relation to officers of MBL under its Constitution in force from time to time
- take out a reimbursement insurance policy and make available to Directors a Directors' and Officers' insurance policy (each policy to be in an amount and on terms and conditions appropriate for a reasonably prudent company in MBL's position) for seven years after the Director ceases to be a Director of MBL
- loan funds to a Director to cover the Director's legal costs in defending a claim, repayable when the outcome of the proceedings is determined (where the outcome results in the Director having an indemnity for such legal costs, the loan will be repayable from the amount paid by MBL to the Director under the indemnity)
- grant access to Directors to all Board papers for at least seven years after the Director ceases to be a Director of MBL, and access to other documents if the documents were in MBL's possession at the time the Director was a Director and where it is not contrary to MBL's interest for the documents to be provided.

In addition, following the approval of shareholders at the 1999 AGM, MBL made an Indemnity and Insurance Deed Poll on 30 July 1999 (Deed Poll). Minor changes were made to the Deed Poll under approvals obtained from shareholders at the 2000 AGM. The benefit of the undertakings made by MBL under the Deed Poll were given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of MBL, its wholly-owned subsidiaries and other companies where the person was acting as such at the specific request of MBL or a wholly-owned subsidiary of MBL. 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 documents of MBL.

The Deed Poll was largely superseded by a corresponding deed poll made by Macquarie Group Limited prior to the 2007 restructure which resulted in Macquarie Group Limited becoming the ultimate parent company of the group. As a result, only Directors and Secretaries of MBL since then and persons who were Directors and Secretaries of companies in the Consolidated Entity before the restructure have the benefit of the Deed Poll.

A Directors' and Officers' insurance policy, taken out by Macquarie Group, is in place 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 MBL 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 Group pays the premium attributable to the 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

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

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

## NON-AUDIT SERVICES

Fees paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), for non-audit services during the period ended 31 March 2017 total \$A4.7 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, 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.
- The BAC has reviewed a summary of non-audit services provided by PwC, including details of the amount 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.

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## ROUNDING OF AMOUNTS

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, amounts in the Directors' Report and Financial Report have been rounded off to the nearest million Australian 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 2017.

**Peter Warne**  
 Independent Director and Chairman

**Mary Reemst**  
 Managing Director and Chief Executive Officer

Sydney  
 5 May 2017

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Macquarie Bank Limited and the entities it controlled during the period.

**K.G. Smith**  
 Partner  
 PricewaterhouseCoopers

Sydney  
 5 May 2017

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**DIRECTORS' REPORT SCHEDULE 1 – DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES****Peter H Warne, BA (Macquarie), FAICD**

Independent Chairman of MGL and MBL since April 2016

Independent Voting Director of MBL since July 2007

Independent Voting Director of MGL since August 2007

*Mr Warne is a member of the BRiC*

**Experience**

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

**Listed Company directorships (last three years)**

- Chairman, ALE Property Group (since September 2003)
- Director, ASX Limited (since July 2006)
- Chairman, OzForex Group Limited (now trading as OFX Limited)(September 2013 – November 2016)
- Deputy Chairman, Crowe Horwath Australasia Limited (from September 2008 – January 2015) (Director from May 2007 – January 2015)

Age: 61

Mr Warne is a resident of New South Wales.

**Other current directorships/appointments**

- Director, New South Wales Treasury Corporation
- Patron, Macquarie University Foundation

**Mary J Reemst, BA (Macquarie), Dip Fin Mgt (Accountancy)(UNE), MAICD**

Managing Director and Chief Executive Officer of MBL since July 2014

Executive Voting Director of MBL since July 2014

**Experience**

Mary Reemst joined Macquarie in 1999, having held senior investment banking roles at Bankers Trust Australia. Ms Reemst was Head of Credit in the Risk Management Group for 11 years, with oversight of Macquarie's wholesale and retail exposures, including lending, trading activities, equity investments and new products.

Age: 59

Ms Reemst is a resident of New South Wales.

**Other current directorships/appointments**

- Director, Australian Bankers' Association
- Director, Financial Markets Foundation for Children
- Director, Australian Financial Markets Association
- Board member, Asylum Seekers Centre Incorporated
- Member, UNE Senior Advisory Board

**Nicholas W Moore, BCom LLB (UNSW), FCA**

Managing Director and Chief Executive Officer of MGL since May 2008

Executive Voting Director of MBL since May 2008

Executive Voting Director of MGL since February 2008

**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.

Age: 58

Mr Moore is a resident of New South Wales.

**Other current directorships/appointments**

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



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

Independent Voting Director of MBL and MGL since August 2013

*Mr Banks is a member of the BRiC*

#### 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 and subsequently Chief Executive of the Australia and New Zealand School of Government.

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.

Age: 67

Mr Banks is a resident of Victoria.

#### Other current directorships/appointments

- Chairperson, Australian Statistics Advisory Council
- Chairman, Regulatory Policy Committee of the OECD
- Member, Advisory Board of the Melbourne Institute, University of Melbourne
- Senior Fellow, Centre for Independent Studies
- Member, NSW Government's Economic Development Advisory Panel

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

Independent Voting Director of MBL and MGL since November 2014

*Mr Cairns is a member of the BRiC*

#### 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.

Age: 66

Mr Cairns is a resident of New South Wales.

#### Listed Company directorships (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 – August 2014)

#### Other current directorships/appointments

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

## DIRECTORS' REPORT SCHEDULE 1 – DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

CONTINUED

### Michael J Coleman, MCom (UNSW), FCA, FCPA, FAICD

Independent Voting Director of MBL and MGL since November 2012

*Mr Coleman is Chairman of the BAC and a member of the BRiC*

#### 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 and as a previous member of the Financial Reporting Council, including terms as Chairman and Deputy Chairman.

Age: 66

Mr Coleman is a resident of New South Wales.

#### Listed Company directorships (last three years)

- Chairman, Bingo Industries Limited (since March 2017) (listed May 2017)

#### 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, UNSW
- Board member, Legal Aid NSW

### Patricia A Cross, BSc (Hons) (Georgetown), FAICD

Independent Voting Director of MBL and MGL since August 2013

*Mrs Cross is Chair of the BRiC and a member of the BAC*

#### 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 Chair of Qantas Superannuation Limited and Deputy Chair of the Transport Accident Commission of Victoria. Mrs Cross has also served on many government bodies and not-for-profit organisations' boards.

Age: 57

Mrs Cross is a resident of Victoria.

#### Listed Company directorships (last three years)

- Director, Aviva plc (since October 2013)

#### Other current directorships/appointments

- Chair, Commonwealth Superannuation Corporation
- Ambassador, Australian Indigenous Education Foundation
- Founding Chair, 30% Club Australia

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Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD	
Independent Voting Director of MBL and MGL since May 2011	
<i>Ms Grady is a member of the BRiC</i>	
Experience	Listed Company directorships (last three years)
<p>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, Watty 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.</p> <p>Ms Grady was a partner at McKinsey &amp; 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 degree in Chinese Studies and worked for three years as a journalist in Asia. She has published research on innovation, corporate governance and gender diversity.</p>	<ul style="list-style-type: none"> <li>– Director, Spotless Group Holdings Limited (since March 2014)</li> </ul>
Age: 68	Other current directorships/appointments
Ms Grady is a resident of New South Wales.	<ul style="list-style-type: none"> <li>– Chair, The Hunger Project Australia</li> <li>– Member, Centre for Ethical Leadership</li> <li>– Member, Heads Over Heels Advisory Board</li> <li>– Member, NFP Chairs Forum</li> <li>– Director, Tennis Australia</li> </ul>

Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin, FAIM, FloD	
Independent Voting Director of MBL and MGL since March 2010	
<i>Mr Hawker is a member of the BAC and BRiC</i>	
Experience	Listed Company directorships (last three years)
<p>Michael Hawker has substantial expertise and experience in the financial services industry including management experience in regulated entities in Australia and internationally 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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>– Director, Aviva plc (since January 2010)</li> <li>– Director, Washington H Soul Pattinson and Company Ltd (since October 2012)</li> </ul>
Age: 57	Other current directorships/appointments
Mr Hawker is a resident of New South Wales.	<ul style="list-style-type: none"> <li>– Chairman, the George Institute for Global Health</li> <li>– Director, Rugby World Cup Limited</li> </ul>

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## DIRECTORS' REPORT SCHEDULE 1 – DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

CONTINUED

**Nicola M Wakefield Evans, BJuris/BLaw (UNSW), FAICD**

Independent Voting Director of MBL and MGL since February 2014

*Ms Wakefield Evans is a member of the BAC and BRiC*

### 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 (last three years)

- Director, Lend Lease Corporation Limited (since September 2013)
- Director, Toll Holdings Limited (May 2011 – May 2015)

Age: 56

### Other current directorships/appointments

Ms Wakefield Evans is a resident of New South Wales.

- Director, Toll Holdings Limited (delisted) since May 2015
- Director, BUPA ANZ Healthcare Holdings Pty Ltd
- Director, BUPA ANZ Insurance Pty Ltd
- Member, Asialink (University of Melbourne) and AsiaLink Business
- Member, Takeovers Panel
- Director, UNSW Foundation Limited
- Member, National Board, Australian Institute of Company Directors

## COMPANY SECRETARIES' QUALIFICATIONS AND EXPERIENCE

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

*Company Secretary since October 1993*

Dennis Leong is an Executive Director of Macquarie and Head of Macquarie's Corporate Governance Division, responsible for Macquarie's company secretarial requirements, general and professional risks insurances and employee equity plans. He has over 23 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

**Paula Walsh, ACIS, MAICD, AAIM**

*Assistant Company Secretary since May 2008*

Paula Walsh is a Division Director of Macquarie and has over 30 years corporate governance experience. She joined Macquarie in May 2007 and was previously Head of Corporate Governance, Asia Pacific at British Telecommunications PLC.

**Ida Lawrance, BCom (Hons) (Queens), DipLaw (LPAB), LL.M (UNSW), AGIA**

*Assistant Company Secretary since January 2014*

Ida Lawrance is a Division Director of Macquarie and has over 15 years legal and governance experience. Prior to joining Macquarie in March 2006, Ida practiced as a lawyer in both the private and public sectors.

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## DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT

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**DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT**

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**INTRODUCTION**

Macquarie Bank is a subsidiary of the Macquarie Group. Whilst subject to the remuneration framework determined by the Macquarie Group, the Board considers remuneration recommendations relating to the senior executives of Macquarie Bank. Throughout this Remuneration Report, for consistency, references are made to the Macquarie Group's remuneration arrangements rather than Macquarie Bank's remuneration arrangements.

During the year, the MGL Board and the BRC have reviewed the Macquarie Group's remuneration framework to ensure it continues to support its overarching objective of delivering superior company performance over both the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and the long-held foundations of the Macquarie Group's risk culture, the principles of *What We Stand For* – Opportunity, Accountability and Integrity.

In undertaking this assessment, the MGL Board and the Board Remuneration Committee (BRC) have considered factors including:

- the degree of alignment between staff and shareholders
- Macquarie Group'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 the Macquarie Group<sup>(1)</sup>
- the employment environment
- the evolving regulatory landscape
- market developments.

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

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## MACQUARIE GROUP'S REMUNERATION FRAMEWORK

This section explains the objectives and principles of the remuneration system

### Overall remuneration objectives and principles

The Macquarie Group'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, the Macquarie Group must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders. They consider this is best achieved by supporting the principles set out in the chart below.

### SUPERIOR COMPANY PERFORMANCE

Align interests of staff and shareholders

Attract, motivate and retain high quality people

Directors 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.

### CREATING A LONG-TERM FOCUS

#### 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*.

The Board and the BRC take risk and behavioural matters very seriously. There are consistent and transparent practices in place for managing non-compliance with the Macquarie Group's policies and to ensure that staff behaviour is aligned with the *Code of conduct* and *What We Stand For*. There are robust processes in place to ensure that these matters are appropriately considered when assessing performance and determining remuneration outcomes.

To assist the BRC:

- the Chief Financial Officer (CFO) confirms to the BRC that the forecast profit share pool would not result in the elimination of capital surpluses
- the Chief Risk Officer (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 Group operates a robust consequence management process whereby incidents, breaches of policy or regulation or conduct issues are managed and regularly shared with senior management. The Global Head of HR annually 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.

**DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT**

CONTINUED

**MACQUARIE GROUP'S REMUNERATION STRUCTURE**

This section describes the way in which remuneration is structured and delivered.

Macquarie Group's remuneration framework works as an integrated whole. An individual's remuneration comprises:

- fixed remuneration
- profit share
- PSUs (for Executive Committee members).

The way in which these three elements work together as part of an integrated framework to support the objectives and principles is

**FIXED REMUNERATION****Determine fixed remuneration**

- modest compared with similar roles in other organisations but sufficient to avoid inappropriate risk-taking
- compared with profit share, generally higher for risk and financial control staff than for front office staff
- reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements
- no fixed remuneration increases proposed for Executive Committee members for FY2018.

**PERFORMANCE-BASED REMUNERATION****Determine company-wide pool**

- Profit share pool**
- determined by reference to a proportion of the Macquarie Group after tax profits and its earnings over and above the estimated cost of capital
  - potential for the Board to exercise discretion to adjust the size of the pool up or down.
- PSU pool**
- reflects the Macquarie Group's overall performance over recent years.

**Determine awards**

- businesses
- individuals

- Profit share pool**
- determined in the context of the overall company-wide pool
  - considers each business' relative contribution to profits (not revenue) taking into account factors including capital and funding usage, risk management and compliance, market developments and the employment environment
  - individual awards are based on performance. Performance criteria vary depending on an individual's role including:
    - financial performance
    - risk management and compliance
    - business leadership
    - people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.
- PSU pool**
- PSUs are only awarded to members of the Executive Committee.
- Risk and financial control groups and other support groups**
- based on the quality and integrity of control functions and the quality of business support services
  - not determined with reference to profitability.

**Structure and deliver performance-based remuneration**

- create shareholder alignment by adopting an approach where a significant portion of performance-based remuneration is:
  - retained and deferred over a long period
  - delivered in a combination of MGL Equity and Macquarie-managed fund equity
  - subject to forfeiture upon leaving the Macquarie Group except in certain circumstances.
- Malus provisions apply to certain senior employees
- employ ROE and EPS as PSU vesting hurdles.

outlined in the below diagram.

The MGL 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.



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### Profit share retention levels

Macquarie Group retains a percentage of certain individual's annual gross profit share allocation (retained profit share). The percentage is set according to their role:

#### Standard retention rates by role for FY2017

Role	Percentage retained (%)
CEO Macquarie Group	80
CEO Macquarie Bank	60
Other Executive Committee Members	60 – 70
Designated Executive Directors <sup>(2)</sup>	50 – 60
Other Executive Directors	40 – 60
Staff other than Executive Directors	25 – 60 <sup>(3)</sup>

The MGL Board's discretion to change remuneration arrangements, as noted above, includes changes to profit share retention levels provided that the retention percentage is at least 30% for Executive Directors. During FY2017, the retention levels for certain Executive Committee members were increased to further strengthen shareholder alignment.

#### Investment of retained profit share

An individual's retained profit share is invested in a combination of MGL ordinary shares under the Macquarie Group Employee Retained Equity Plan (MEREP)<sup>(4)</sup> and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan<sup>(5)</sup>. The following table shows the current percentage allocation of retained profit share that is invested in these two plans for Executive Directors, which is dependent on their role.

Role	Post-2009 DPS Plan (Macquarie-managed fund equity) %	MEREP (MGL ordinary shares) %
CEO MGL and CEO MBL	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 the MGL equity with the exception of those staff with funds responsibilities where retained profit share is invested in a combination of the MGL equity and Macquarie-managed fund equity.

Both the MEREP and DPS Plan are fundamental tools in the Macquarie Group'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.

(2) Executive Directors who have a significant management or risk responsibility in the organisation.

(3) Above certain monetary thresholds.

(4) 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 MGL ordinary shares 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.

(5) 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

### 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 following table shows the current 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 MGL and MBL), 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 and release 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 Events

Since 2012, the MGL 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 MGL 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 determined 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 the Macquarie Group
- acted or failed to act in a way that contributed to the Macquarie Group, Macquarie Bank or any Operating Group within the Macquarie Group 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 misstatement.

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 Remuneration Code. These individuals are subject to additional Malus and clawback provisions under these regulations.

The Macquarie Group 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.

#### 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 MGL 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 Group businesses, or when an employee resigns to fulfil a public service role in a governmental organisation or agency. Where such discretion is exercised, the MGL 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.

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### Conditions of early release of retained profit share to departing Executive Directors – Post Employment Events

In addition to the Malus provisions set out above, the MGL 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 MGL Board or its delegates 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 to one year	One year to 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 as set out on the previous page or Post Employment Event as set out above.	No Malus Event or Post Employment Event during the First Period, and	No Malus Event or Post Employment Event during the First Period, and
		No Malus Event or Post Employment Event a) above during Second Period.	No Malus Event or Post Employment Event a) during the Second Period, and
			No Malus Event during the Third Period.

Where an Executive Director has a tax liability on termination of employment in respect of any unvested retained profit share, the MGL 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**

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**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 the Macquarie Group as a whole. As such, they provide an additional incentive to Executive Committee members to drive company-wide performance over the long-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>(6)</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 other DSUs. There is no exercise price for PSUs. The following table summarises the key terms of PSUs and the performance hurdles:

**Determination**

The MGL Board approves the value of PSUs to be allocated to Executive Committee members each year. The aggregate value of PSUs to be allocated is determined with reference to profits over recent years.

**Allocation**

The allocation to individuals<sup>(7)</sup> is based on:

- role scope and complexity
- financial and non-financial performance assessment against a range of factors including financial results, risk management and compliance, business leadership and people leadership
- upholding the *Code of conduct* and *What We Stand For*.

**Vesting**

Since 2012, PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles.

**Upon leaving Macquarie**

To ensure continued alignment with shareholders post termination, in the case of death, serious incapacitation, genuine retirement, redundancy, disability, serious ill-health or limited exceptional circumstances, the MGL Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles. Unless one of the early release circumstances applies, unvested PSUs will be forfeited on termination.

(6) 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.

(7) The allocation of PSUs to the Macquarie Group CEO, who is an Executive Voting Director, is subject to Macquarie Group shareholder approval.

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### 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 market practice. No change has been made to the hurdles for FY2017.

	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 financial institutions <sup>(8)</sup>
<b>Hurdle</b>	Sliding scale applies: <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> For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable. For awards made prior to 2013, the EPS CAGR hurdle range was 9% - 13%.	Sliding scale applies: <ul style="list-style-type: none"> <li>– 50% becoming exercisable above the 50th percentile</li> <li>– 100% at the 75th percentile.</li> </ul> For example, if ROE achievement was at the 60 <sup>th</sup> percentile, 70% of the relevant awards would become exercisable.
<b>Rationale for hurdles</b>	<ul style="list-style-type: none"> <li>– ROE and EPS are considered appropriate measures of performance as they drive long-term company performance and are broadly similar to the performance measures Macquarie Group 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>– The approach is consistent with that advocated by APRA in not using TSR as a measure</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>– Macquarie Group'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> Use of an international reference group recognises the extent of Macquarie Group's diversification and internationalisation. At 31 March 2017, total international income represented approximately 63% of Macquarie Group's total income with approximately 55% of Macquarie Group's staff located outside Australia.	

(8) 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 & Co., 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 Inc., JP Morgan Chase & Co., 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**

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**Testing of hurdles**

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

The PSUs that vested in July 2016 comprised the second tranche of those awards granted in 2012 and the first tranche of those granted in 2013. 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 Group result (for vesting period)	Hurdle	Outcome	Macquarie Group result (for vesting period)	Hurdle	Outcome
2012 Tranche 2	31.02%	9%-13%	100% exercisable	10.64%	50% above the 50th percentile: (6.78%) 100% at the 75th percentile: 18.57%	88% exercisable
2013 Tranche 1	35.08%	7.5%-12%	100% exercisable	11.85%	50% above the 50th percentile: (4.30%) 100% at the 75th percentile: 6.39%	100% exercisable

PSUs that did not meet performance hurdles expired.

**Other features of Macquarie Group'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 relevant interest in MGL ordinary shares which have a value equal to 5% of an Executive Director's aggregate profit share allocations for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy.

**Hedging**

The Macquarie Group 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 29 to 33 for details
<b>PSU participation</b>	Executive Committee members are eligible to receive PSUs. Refer to pages 34 to 36 for details
<b>Termination of employment</b>	Requires no more than four weeks' notice <sup>(9)</sup> by the Macquarie Group or the Executive Committee member

(9) Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by the Macquarie Group 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

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## ALIGNMENT OF REMUNERATION OUTCOMES TO RESULTS

Macquarie Bank's FY2017 net profit after tax (NPAT) is up 16% excluding the profit from discontinued operations and has decreased by 42% when the profit from discontinued operations is included.

	2017	2016 <sup>(10)</sup>	2015 <sup>(10)</sup>	2016 <sup>(11)</sup>	2015 <sup>(11)</sup>	2014	2013
NPAT attributable to ordinary equity holders (\$Am)	1,221	1,050	906	2,090	1,096	752	650
Return on average ordinary shareholders' funds (% p.a.)	10.1	9.2	9.5	18.3	11.5	8.5	7.9

## REMUNERATION GOVERNANCE

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

### Strong Board oversight

The MGL Board oversees Macquarie Group's remuneration arrangements. The MGL Board has a BRC whose objective is to assist the MGL Board and the Board of Macquarie Bank, a key operating subsidiary, with Macquarie Group's remuneration policies and practices.

The BRC currently comprises five independent NEDs:

- Michael Hawker (Chairman)
- Gary Banks
- Gordon Cairns
- Diane Grady
- Peter Warne.

The BRC members have the required experience and expertise in human resources, remuneration and risk that enable them to achieve effective governance of the Macquarie Group's remuneration system. The BRC has a regular meeting cycle and it met seven times over the last financial year. Attendance at the meetings by the BRC members is set out in the Directors' Report. Strict processes are in place to ensure that conflicts of interest are appropriately managed.

The BRC pays close attention to the design and the operation of remuneration practices for all of the Macquarie Group, not just for the most senior executives. The responsibilities of the BRC are outlined in its Charter, which is reviewed and approved annually by the MGL Board. The Charter is available on the Macquarie Group's website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance). Some of the responsibilities include:

- recommending to the Board the remuneration outcomes for all Executive KMP, Designated Executive Directors as well as other senior executives
- assessing the effectiveness of the *Remuneration Policy* to ensure compliance with legal and regulatory requirements, as well as to support the alignment of remuneration with prudent risk taking and professional conduct across the organisation
- recommending the *Remuneration Policy* to the MGL Board for approval, and
- overseeing the process for the annual review by the MGL Board and the Board of the CEOs and other Executive KMPs' performance.

As part of the Board's annual review of MBL's CEO's performance, the CEO meets with the Non-Executive Directors (NEDs) towards the end of each financial year to consider formal documentation that outlines her views of Macquarie Bank's performance. The presentation includes a broad range of Macquarie Bank'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 interests 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.

The MGL 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.

### Independent remuneration review

The BRC has retained Pay Governance as its independent remuneration consultant, for the use of the MGL Board to obtain advice on the appropriateness of the Macquarie Group's remuneration system.

The only service that Pay Governance provides to the Macquarie Group is executive compensation consulting to the BRC. This year, Pay Governance considered the overall approach to remuneration, comparator organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant comparator company information was available. Pay Governance has not made any remuneration recommendations, as defined by the *Corporations Act 2001 (Cth)*. The BRC is responsible for making decisions within the terms of its Charter. Pay Governance's terms of engagement set out their independence from members of Macquarie Group's management.

(10) Excluding the profit from discontinued operations on the transfer of the MIM business from the Bank to the Non-Bank as reported in the Financial Statements for the year ended 31 March 2016.

(11) Including the profit from discontinued operations on the transfer of the MIM business from the Bank to the Non-Bank as reported in the Financial Statements for the year ended 31 March 2016.

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## DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT

### CONTINUED

This year, Pay Governance:

- provided information on global remuneration and regulatory trends
- compared individual remuneration for Executive KMP where relevant comparator company information was available
- considered Macquarie Group's overall remuneration approach compared to comparator company organisations.

Pay Governance's findings included that:

- the objectives of Macquarie Group's remuneration system are similar to those cited by other leading global investment banks
- Macquarie Group's remuneration components support its remuneration objectives and principles and are largely consistent with practices at other leading global investment banks.

### NON-EXECUTIVE DIRECTOR REMUNERATION

Macquarie Group's remuneration approach seeks to ensure that the Non-Executive Directors (NEDs) are appropriately remunerated. Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, significantly differ from the arrangements applicable to Executives.

#### Non-Executive Director remuneration policy

Macquarie Group's NED remuneration policy achieves its overall objective of appropriate remuneration by:

- Setting Board and Committee fees to reflect the time commitment and responsibilities involved, taking into account market rates for relevant organisations and market trends
- Delivering these fees in a form that is not contingent on Macquarie Group's performance.

Unlike Macquarie Group executives, NEDs are not granted equity, nor are they eligible to receive profit share payments.

There are no termination payments to NEDs on their retirement from office other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

The MGL CEO and the MBL CEO are not remunerated separately for acting as an Executive Voting Director.

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

All NEDs of MGL are also NEDs of MBL. The policy governs the remuneration of NEDs of both MGL and MBL.

### Board and Committee fees

Board and Committee fees are reviewed annually. Per diem fees may also be paid from time to time for approved additional work. An internal review of NED remuneration was completed in 2016. Following this review, the Boards determined that Board and Committee fees should remain unchanged.

#### MBL Annual Director Fees

	Chairman \$A	Member \$A
Board	250,000	72,500

MBL does not have standalone Board committees. The Macquarie Group BAC and the Macquarie Group BRiC are joint committees of MGL and MBL. The BRC also advises both Boards. The MGL Board Committee Chairman annual fee is \$A75,000 and the annual member fee is \$A35,000 for each of the BAC, BRiC and BRC.

MGL's NEDs are remunerated for their services from the maximum aggregate amount approved by Macquarie Group for this purpose. MGL shareholders approved the current limit (\$A4.6 million per annum) at MGL's 2015 AGM. The Board ensures that NED remuneration for MGL and MBL taken together does not exceed this shareholder approved maximum amount.

Information on the number of Board and Committee meetings is included on page 19 of the Directors' Report.



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## 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 MBL and its controlled entities (together making Executive KMP) and NEDs. MBL's NEDs are required by the Act to be included as KMP for the purposes of disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of Management. The following table sets out the KMPs for FY2017:

Name	Position
<b>Executive Voting Directors</b>	
N.W. Moore	Macquarie Group CEO
M.J. Reemst	Macquarie Bank CEO
<b>Non-Executive Directors</b>	
G.R. Banks AO	Independent Director
G.M. Cairns	Independent Director
M.J. Coleman	Independent Director
P.A. Cross	Independent Director
D.J. Grady AM	Independent Director
M.J. Hawker AM	Independent Director
N.M. Wakefield Evans	Independent Director
P.H. Warne	Independent Chairman
<b>Executives</b>	
S.D. Allen	CRO, Head of RMG
B.A. Brazil	Co-Head of CAF
A.J. Downe	Head of CGM
G.A. Farrell	Co-Head of CAF
M. McLaughlin	Country Head, United States of America
N. Sorbara	COO, Head of COG
P.C. Upfold	CFO, Head of FMG
S. Vrcelj	Former Head of MSG
G.C. Ward	Deputy Managing Director and Head of BFS
S. Wikramanayake	Head of MAM

With the exception of Mr S. Vrcelj, who ceased to be a member of the Executive Committee on 29 November 2016:

- all of the above individuals were KMP for the full year
- all of the above Executive Voting Directors and Executives were members of the Executive Committee as at 5 May 2017.

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**

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**APPENDIX 2: STATUTORY REMUNERATION DISCLOSURES****Executive Remuneration**

The remuneration arrangements for all of the persons listed on the previous page as Executive Voting Directors or Executives are described on pages 29 to 36.

Under the requirements of AASB 124 *Related Party Disclosures*, the remuneration disclosures for the years ended 31 March 2017 and 31 March 2016 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 FY2017 and FY2016.

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2017 will be granted during FY2018, Macquarie Group begins recognising an expense for these awards (based on an initial estimate) from 1 April 2016. The expense is estimated using the price of MGL ordinary shares as at 31 March 2017 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.19% per annum, expected vesting dates of PSUs of 1 July 2020 and 1 July 2021, and a dividend yield of 4.94% per annum. In the following financial year, Macquarie Group 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 validation for recognising the expense over the remaining vesting period.

As explained on page 31, 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.

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 page 43). 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**

CONTINUED

**Executive KMP Remuneration Disclosure (in accordance with Australian Accounting Standards)**

Name	Position	Year	Short-Term Employee Benefits		
			Salary (including superannuation) \$A	Performance related remuneration <sup>(1)</sup> \$A	Total short-term employee benefits \$A
<b>Executive Voting Directors</b>					
N.W. Moore	Managing Director and CEO	2017	452,760	1,925,749	2,378,509
		2016	473,614	2,771,675	3,245,289
M.J. Reemst	MBL Managing Director and CEO	2017	700,800	1,401,648	2,102,448
		2016	666,624	1,492,608	2,159,232
<b>Other Executives</b>					
S.D. Allen	CRO, Head of RMG	2017	514,182	1,600,124	2,114,306
		2016	501,832	1,636,000	2,137,832
B.A. Brazil	Co-Head of CAF	2017	700,800	6,387,347	7,088,147
		2016	701,256	6,733,695	7,434,951
A.J. Downe <sup>(6)</sup>	Head of CGM	2017	757,509	5,015,848	5,773,357
		2016	747,552	2,639,503	3,387,055
G.A. Farrell	Co-Head of CAF	2017	698,181	2,984,964	3,683,145
		2016	688,269	3,257,653	3,945,922
M. McLaughlin <sup>(6)</sup>	Country Head, United States of America	2017	523,213	342,764	865,977
		2016	506,850	-	506,850
N. Sorbara	COO, Head of COG	2017	386,356	998,852	1,385,208
		2016	404,151	1,169,045	1,573,196
P.C. Upfold	CFO, Head of FMG	2017	565,634	1,594,365	2,159,999
		2016	558,578	1,967,390	2,525,968
G.C. Ward	Deputy Managing Director, Head of BFS	2017	690,458	3,012,845	3,703,303
		2016	693,482	2,886,413	3,579,895
S. Wikramanayake	Head of MAM	2017	104,339	203,028	307,367
		2016	207,893	485,252	693,145
<b>Total Remuneration – Comparable Executive KMP<sup>(7)</sup></b>		2017	6,094,232	25,467,534	31,561,766
		2016	6,150,101	25,039,234	31,189,335
<b>Former Executives</b>					
S. Vrcelj <sup>(8)</sup>	Former Head of MSG	2017	73,043	167,265	240,308
		2016	122,692	849,236	971,928
<b>Total Remuneration – Executive KMP (including former executives)</b>		2017	6,167,275	25,634,799	31,802,074
		2016	6,272,793	25,888,470	32,161,263

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## 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	%
<b>770,300</b>	<b>267,171</b>	<b>1,037,471</b>	<b>5,030,134</b>	<b>2,003,276</b>	<b>7,033,410</b>	<b>10,449,390</b>	<b>19.17</b>
646,724	130,997	777,721	3,685,560	1,804,913	5,490,473	9,513,483	18.97
<b>210,247</b>	<b>72,717</b>	<b>282,964</b>	<b>1,223,635</b>	<b>1,112,092</b>	<b>2,335,727</b>	<b>4,721,139</b>	<b>23.56</b>
149,261	50,881	200,142	924,529	740,077	1,664,606	4,023,980	18.39
<b>240,019</b>	<b>86,412</b>	<b>326,431</b>	<b>1,374,770</b>	<b>1,150,466</b>	<b>2,525,236</b>	<b>4,965,973</b>	<b>23.17</b>
163,600	45,595	209,195	1,054,578	1,050,170	2,104,748	4,451,775	23.59
<b>958,102</b>	<b>223,087</b>	<b>1,181,189</b>	<b>6,973,281</b>	<b>1,619,586</b>	<b>8,592,867</b>	<b>16,862,203</b>	<b>9.60</b>
1,010,054	99,881	1,109,935	5,416,565	1,068,468	6,485,033	15,029,919	7.11
<b>752,377</b>	<b>795,839</b>	<b>1,548,216</b>	<b>4,252,383</b>	<b>2,263,567</b>	<b>6,515,950</b>	<b>13,837,523</b>	<b>16.36</b>
395,926	456,183	852,109	3,403,178	2,279,063	5,682,241	9,921,405	22.97
<b>447,745</b>	<b>212,138</b>	<b>659,883</b>	<b>3,152,855</b>	<b>2,468,658</b>	<b>5,621,513</b>	<b>9,964,541</b>	<b>24.77</b>
325,765	152,967	478,732	2,585,618	2,389,938	4,975,556	9,400,210	25.42
<b>51,415</b>	<b>102,350</b>	<b>153,765</b>	<b>552,993</b>	<b>241,098</b>	<b>794,091</b>	<b>1,813,833</b>	<b>13.29</b>
-	-	-	-	-	-	506,850	0.00
<b>149,828</b>	<b>28,367</b>	<b>178,195</b>	<b>759,931</b>	<b>932,470</b>	<b>1,692,401</b>	<b>3,255,804</b>	<b>28.64</b>
116,904	13,545	130,449	550,543	834,245	1,384,788	3,088,433	27.01
<b>239,155</b>	<b>41,971</b>	<b>281,126</b>	<b>1,442,428</b>	<b>835,802</b>	<b>2,278,230</b>	<b>4,719,355</b>	<b>17.71</b>
196,739	18,280	215,019	1,057,140	548,712	1,605,852	4,346,839	12.62
<b>903,853</b>	<b>140,936</b>	<b>1,044,789</b>	<b>2,283,535</b>	<b>2,294,326</b>	<b>4,577,861</b>	<b>9,325,953</b>	<b>24.60</b>
577,283	70,281	647,564	1,807,280	2,118,635	3,925,915	8,153,374	25.98
<b>152,271</b>	<b>30,152</b>	<b>182,423</b>	<b>105,937</b>	<b>87,667</b>	<b>193,604</b>	<b>683,394</b>	<b>12.83</b>
242,626	24,538	267,164	145,121	154,946	300,067	1,260,376	12.29
<b>4,875,312</b>	<b>2,001,140</b>	<b>6,876,452</b>	<b>27,151,882</b>	<b>15,009,008</b>	<b>42,160,890</b>	<b>80,599,108</b>	
3,824,882	1,063,148	4,888,030	20,630,112	12,989,167	33,619,279	69,696,644	
<b>39,028</b>	<b>22,708</b>	<b>61,736</b>	<b>695,774</b>	<b>813,866</b>	<b>1,509,640</b>	<b>1,811,684</b>	<b>44.92</b>
198,155	12,507	210,662	804,483	1,138,383	1,942,866	3,125,456	36.42
<b>4,914,340</b>	<b>2,023,848</b>	<b>6,938,188</b>	<b>27,847,656</b>	<b>15,822,874</b>	<b>43,670,530</b>	<b>82,410,792</b>	
4,023,037	1,075,655	5,098,692	21,434,595	14,127,550	35,562,145	72,822,100	

**DIRECTORS' REPORT SCHEDULE 2 – REMUNERATION REPORT**

CONTINUED

**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 31.
- (4) The current year expense for retained profit share that is invested in MGL ordinary shares under the MEREP described on page 31. This is recognised as an expense over the respective vesting periods as described on page 32.
- (5) The current year expense for PSUs that is recognised over the vesting period as described on pages 34.
- (7) Comparable KMP are Executive KMP who are members of the Executive Committee for the full year in both FY2017 and FY2016.

**Notes on individuals**

- (6) 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 FY2017 differs to FY2016 due to exchange rate movements.
- (8) Mr Vrcelj retired from the Executive Committee on 29 November 2016 and will not receive a PSU grant in respect of FY2017. The amount shown as a PSU share-based payment represents the current year expense in respect of prior year PSU awards.

**Non-Executive Director Remuneration**

The remuneration arrangements for all of the persons listed below as NEDs are described on page 38 of this Remuneration Report. Whilst NED fees were unchanged during the current year, FY2017 amounts reflect the full year impact of fee increases effective 1 October 2015.

	Year	Fees \$A	Other benefits \$A <sup>(9)</sup>	Total Compensation \$A
G.R. Banks	2017	72,500	–	72,500
	2016	71,250	–	71,250
G.M. Cairns	2017	72,500	–	72,500
	2016	71,250	–	71,250
M.J. Coleman	2017	72,500	3,000	75,500
	2016	71,250	4,500	75,750
F.A. Cross	2017	72,500	–	72,500
	2016	71,250	–	71,250
D.J. Grady	2017	72,500	–	72,500
	2016	71,250	–	71,250
M.J. Hawker	2017	72,500	–	72,500
	2016	71,250	–	71,250
H.K. McCann <sup>(10)</sup>	2017	–	–	–
	2016	245,000	–	245,000
N.M. Wakefield Evans	2017	72,500	–	72,500
	2016	71,250	–	71,250
P.H. Warne <sup>(11)</sup>	2017	250,000	–	250,000
	2016	71,250	–	71,250
<b>Total Remuneration – Non-Executive KMP</b>	2017	<b>757,500</b>	<b>3,000</b>	<b>760,500</b>
	2016	815,000	4,500	819,500

(9) Other benefits for NEDs include due diligence committee fees paid to Mr Coleman of \$A3,000 (2016: \$A4,500).

(10) Mr McCann retired from the MGL and MBL Boards effective 31 March 2016.

(11) Mr Warne commenced as Chairman of the MGL and MBL Boards effective 1 April 2016.

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## APPENDIX 3: OTHER KMP DISCLOSURES

### Other transactions with KMP and their related parties

Certain KMP and their related parties have acquired investments in certain products from subsidiaries within the Macquarie Group. These products typically involve the issuance of investment units and have been financed with limited recourse loans. Some are accounted for as fee and commission income when acting on behalf of investors. This fee represents the service performed by the Macquarie Group for transferring interest received from investors in exchange for their investment unit returns. The gross receipts by the Macquarie Group were \$A2,700 thousand (2016: \$A1,100 thousand). Others are subject to swap agreements and are accounted for as derivatives by the Macquarie Group. All the arrangements between the investor and the Macquarie Group are subject to a legal right of set-off.

All transactions with KMP (including their related parties) were conducted on an arm's length basis in the ordinary course of business and under standard terms and conditions for other customers and employees.

From an accounting perspective, amounts recognised by the Macquarie Group in respect of these transactions are either recognised net in either trading income or fee and commission income and have been disclosed below.

Aggregated amounts recognised by the Macquarie Group	Balance at 31 March 2017 \$A'000	Balance at 31 March 2016 \$A'000
Trading income	<b>838</b>	800
Fee and Commission income	<b>397</b>	174

Contributions in respect of these products relate to the following Key Management Personnel: S. Wikramanayake.

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 Bank relating to the years ended 31 March 2013 through to 31 March 2017 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).

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# FINANCIAL REPORT



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The Financial Report was authorised for issue by the Board of Directors on 5 May 2017.  
 The Board of Directors has the power to amend and reissue the Financial Report.

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## INCOME STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

	Notes	CONSOLIDATED		COMPANY	
		2017 \$m	2016 \$m	2017 \$m	2016 \$m
Interest and similar income	2	4,778	5,083	4,276	4,122
Interest expense and similar charges	2	(2,608)	(2,911)	(2,490)	(2,685)
Net interest income		2,170	2,172	1,786	1,437
Fee and commission income	2	820	930	414	577
Net trading income	2	1,667	2,124	773	1,371
Net operating lease income	2	922	881	24	14
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	2	(19)	22	–	–
Other operating income and charges	2	261	(486)	785	2,800
Net operating income		5,821	5,643	3,782	6,199
Employment expenses	2	(1,487)	(1,428)	(1,105)	(1,039)
Brokerage, commission and trading-related expenses	2	(626)	(640)	(427)	(440)
Occupancy expenses	2	(118)	(112)	(87)	(84)
Non-salary technology expenses	2	(158)	(151)	(123)	(120)
Other operating expenses	2	(1,699)	(1,576)	(1,319)	(1,221)
Total operating expenses		(4,088)	(3,907)	(3,061)	(2,904)
<b>Operating profit from continuing operations before income tax</b>		<b>1,733</b>	<b>1,736</b>	<b>721</b>	<b>3,295</b>
Income tax expense	4	(509)	(681)	(73)	(276)
<b>Profit from continuing operations (net of income tax)</b>		<b>1,224</b>	<b>1,055</b>	<b>648</b>	<b>3,019</b>
Profit from discontinued operations (net of income tax)	43	–	1,040	–	641
<b>Profit from continuing operations and discontinued operations after income tax</b>		<b>1,224</b>	<b>2,095</b>	<b>648</b>	<b>3,660</b>
(Profit)/loss attributable to non-controlling interests:					
Macquarie Income Preferred Securities	5	–	(1)	–	–
Other non-controlling interests		12	12	–	–
Loss attributable to non-controlling interests		12	11	–	–
<b>Profit attributable to equity holders of Macquarie Bank Limited</b>		<b>1,236</b>	<b>2,106</b>	<b>648</b>	<b>3,660</b>
Distributions paid or provided for on:					
Macquarie Income Securities	5	(15)	(16)	–	–
Convertible debentures	5	–	–	–	(1)
<b>Profit attributable to ordinary equity holders of Macquarie Bank Limited</b>		<b>1,221</b>	<b>2,090</b>	<b>648</b>	<b>3,659</b>
From continuing operations		1,221	1,050	648	3,018
From discontinued operations	43	–	1,040	–	641

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

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**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**

	Notes	CONSOLIDATED		COMPANY	
		2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>Profit from continuing operations and discontinued operations after income tax</b>		<b>1,224</b>	2,095	<b>648</b>	3,660
Other comprehensive income/(expense):					
Movements in items that may be subsequently reclassified to profit or loss:					
Available for sale investments, net of tax	28				
Revaluation gains/(losses) taken to equity		11	38	36	(23)
Impairment transferred to income statement		22	23	20	15
Realisation from sale transferred to income statement		(29)	(20)	(26)	5
Cash flow hedges, revaluation gains/(losses) taken to equity, net of tax	28	16	(34)	(12)	(14)
Share of other comprehensive expense of associates and joint ventures, net of tax	28	(1)	–	–	–
Exchange differences on translation of foreign operations, net of hedge and tax		(129)	(123)	3	5
Movements in items that will not be reclassified to profit or loss:					
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	28	(30)	–	(30)	–
<b>Total other comprehensive expense</b>		<b>(140)</b>	(116)	<b>(9)</b>	(12)
<b>Total comprehensive income</b>		<b>1,084</b>	1,979	<b>639</b>	3,648
Total comprehensive (income)/expense attributable to non-controlling interests:					
Macquarie Income Preferred Securities holders		–	(5)	–	–
Other non-controlling interests		12	12	–	–
<b>Total comprehensive expense attributable to non-controlling interests</b>		<b>12</b>	7	<b>–</b>	–
Total comprehensive income attributable to:					
Macquarie Income Securities holders		(15)	(16)	–	–
Convertible debenture holders		–	–	–	(1)
<b>Total comprehensive income attributable to ordinary equity holders of Macquarie Bank Limited</b>		<b>1,081</b>	1,970	<b>639</b>	3,647

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

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## STATEMENTS OF FINANCIAL POSITION

### AS AT 31 MARCH 2017

	Notes	CONSOLIDATED		COMPANY	
		2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>Assets</b>					
Receivables from financial institutions	6	25,565	30,956	23,907	28,295
Trading portfolio assets	7	26,637	23,062	20,609	18,156
Derivative assets		12,067	17,962	10,788	15,137
Investment securities available for sale	8	5,182	9,008	4,801	8,494
Other assets	9	8,646	6,918	5,179	4,338
Loan assets held at amortised cost	10	75,550	78,913	52,680	56,953
Other financial assets at fair value through profit or loss	12	760	1,057	594	1,005
Due from related body corporate entities		1,733	1,610	1,535	1,032
Due from subsidiaries	30	–	–	31,071	30,348
Property, plant and equipment	13	10,743	11,304	568	374
Interests in associates and joint ventures accounted for using the equity method	14	203	426	53	72
Intangible assets	15	193	224	104	142
Investments in subsidiaries	16	–	–	9,331	7,629
Deferred tax assets	18	162	169	319	279
<b>Total assets</b>		<b>167,441</b>	<b>181,609</b>	<b>161,539</b>	<b>172,254</b>
<b>Liabilities</b>					
Trading portfolio liabilities	19	4,922	4,794	5,143	4,824
Derivative liabilities		11,101	14,713	10,280	13,474
Deposits	20	57,682	52,228	56,298	50,952
Other liabilities	21	9,375	7,121	6,216	4,618
Payables to financial institutions	22	14,236	20,555	11,212	17,468
Due to related body corporate entities	30	7,367	7,555	5,959	5,910
Due to subsidiaries	30	–	–	17,480	15,312
Debt issued at amortised cost	23	43,137	55,142	29,691	40,242
Other financial liabilities at fair value through profit or loss	24	1,934	2,307	3,921	4,062
Deferred tax liabilities	18	484	406	131	138
<b>Total liabilities excluding loan capital</b>		<b>150,238</b>	<b>164,821</b>	<b>146,331</b>	<b>157,000</b>
<b>Loan capital</b>	26	<b>4,615</b>	<b>4,078</b>	<b>4,615</b>	<b>4,078</b>
<b>Total liabilities</b>		<b>154,853</b>	<b>168,899</b>	<b>150,946</b>	<b>161,078</b>
<b>Net assets</b>		<b>12,588</b>	<b>12,710</b>	<b>10,593</b>	<b>11,176</b>
<b>Equity</b>					
Contributed equity	27	9,911	9,882	9,812	9,808
Reserves	28	373	483	45	24
Retained earnings	28	2,296	2,333	736	1,344
<b>Total capital and reserves attributable to equity holders of Macquarie Bank Limited</b>		<b>12,580</b>	<b>12,698</b>	<b>10,593</b>	<b>11,176</b>
Non-controlling interests	28	8	12	–	–
<b>Total equity</b>		<b>12,588</b>	<b>12,710</b>	<b>10,593</b>	<b>11,176</b>

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

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**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
CONSOLIDATED							
Balance as at 1 April 2015		9,082	603	1,831	11,516	83	11,599
Profit from continuing operations and discontinued operations after income tax		–	–	2,106	2,106	(11)	2,095
Other comprehensive (expense)/income, net of tax		–	(120)	–	(120)	4	(116)
Total comprehensive (expense)/income		–	(120)	2,106	1,986	(7)	1,979
Transactions with equity holders:							
Contribution of ordinary equity, net of transaction costs	27	800	–	–	800	–	800
Dividends and distributions paid or provided for		–	–	(1,596)	(1,596)	–	(1,596)
Non-controlling interests:							
Change in non-controlling ownership interests	28	–	–	(8)	(8)	(63)	(71)
Distributions paid or provided for		–	–	–	–	(1)	(1)
		800	–	(1,604)	(804)	(64)	(868)
<b>Balance as at 31 March 2016</b>		<b>9,882</b>	<b>483</b>	<b>2,333</b>	<b>12,698</b>	<b>12</b>	<b>12,710</b>
Profit from continuing operations and discontinued operations after income tax		–	–	1,236	1,236	(12)	1,224
Other comprehensive expense, net of tax		–	(110)	(30)	(140)	–	(140)
Total comprehensive (expense)/income		–	(110)	1,206	1,096	(12)	1,084
Transactions with equity holders:							
Dividends and distributions paid or provided for		–	–	(1,241)	(1,241)	–	(1,241)
Non-controlling interests:							
Change in non-controlling ownership interests	28	–	–	(2)	(2)	9	7
Distributions paid or provided for		–	–	–	–	(1)	(1)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	27	29	–	–	29	–	29
		29	–	(1,243)	(1,214)	8	(1,206)
<b>Balance as at 31 March 2017</b>		<b>9,911</b>	<b>373</b>	<b>2,296</b>	<b>12,580</b>	<b>8</b>	<b>12,588</b>

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**  
CONTINUED

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
COMPANY					
Balance as at 1 April 2015		9,105	36	1,236	10,377
Profit from continuing operations and discontinued operations after income tax		–	–	3,659	3,659
Other comprehensive expense, net of tax		–	(12)	–	(12)
Total comprehensive (expense)/income		–	(12)	3,659	3,647
Transactions with equity holders:					
Contribution of ordinary equity, net of transaction costs	27	800	–	–	800
Dividends and distributions paid or provided for	5	–	–	(3,571)	(3,571)
Other equity movements:					
Contributions from ultimate parent entity in relation to share-based payments	27	10	–	–	10
Redemption of convertible debentures		(107)	–	–	(107)
Premium on redemption of convertible debentures		–	–	20	20
		703	–	(3,551)	(2,848)
<b>Balance as at 31 March 2016</b>		<b>9,808</b>	<b>24</b>	<b>1,344</b>	<b>11,176</b>
Profit from continuing operations and discontinued operations after income tax		–	–	648	648
Other comprehensive income/(expense), net of tax		–	21	(30)	(9)
Total comprehensive income		–	21	618	639
Transactions with equity holders:					
Dividends and distributions paid or provided for	5	–	–	(1,226)	(1,226)
Other equity movements:					
Contributions from ultimate parent entity in relation to share-based payments	27	4	–	–	4
		4	–	(1,226)	(1,222)
<b>Balance as at 31 March 2017</b>		<b>9,812</b>	<b>45</b>	<b>736</b>	<b>10,593</b>

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



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**STATEMENTS OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**

	Notes	CONSOLIDATED		COMPANY	
		2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>Cash flows (used in)/from operating activities</b>					
Interest and similar income received		4,835	5,062	4,316	4,090
Interest expense and similar charges paid		(2,558)	(2,842)	(2,447)	(2,602)
Dividends and distributions received		14	53	745	840
Fees and other non-interest income received		869	890	726	924
Fees and commissions paid		(662)	(620)	(457)	(423)
Operating lease income received		1,627	1,575	59	35
Net proceeds from/(payments for) trading portfolio assets and other financial assets/liabilities		4,069	(2,157)	3,805	(2,856)
Payments to suppliers		(1,756)	(1,554)	(1,504)	(1,393)
Employment expenses paid		(1,297)	(1,470)	(1,091)	(1,171)
Income tax paid		(176)	(565)	(98)	(112)
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		1,181	1,016	–	–
Life investment linked contract payments, acquisition of investment assets and unitholder redemptions		(1,077)	(970)	–	–
Net loan assets realised/(granted)		318	(1,080)	4,310	(9,279)
Net margin money (paid)/received		(1,113)	295	(213)	570
Net movement in payables to other financial institutions, deposits and other borrowings		(9,774)	15,021	(8,612)	15,577
Net payments for assets under operating lease		(301)	(694)	(245)	–
Net cash flows (used in)/from operating activities	29	(5,801)	11,960	(706)	4,200
<b>Cash flows from/(used in) investing activities</b>					
Net proceeds from/(payments for) investment securities available for sale		2,547	(2,549)	2,415	(2,881)
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		1,487	1,041	386	700
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		(152)	(12,427)	(2,178)	(4,203)
Proceeds from the disposal of property, plant and equipment and intangible assets		–	26	–	–
Payments for the acquisition of property, plant and equipment and intangible assets		(151)	(52)	(29)	(11)
Net cash flows from/(used in) investing activities		3,731	(13,961)	594	(6,395)
<b>Cash flows (used in)/from financing activities</b>					
Proceeds from the issue of ordinary shares		–	800	–	800
Proceeds from the issue of loan capital		980	963	980	956
Payments on redemption of loan capital		(221)	(178)	(221)	(87)
Proceeds from/(payments to) non-controlling interests		6	(70)	–	–
Dividends and distributions paid		(1,241)	(1,467)	(1,226)	(1,453)
Net cash flows (used in)/from financing activities		(476)	48	(467)	216
<b>Net decrease in cash and cash equivalents</b>		(2,546)	(1,953)	(579)	(1,979)
Cash and cash equivalents at the beginning of the financial year		12,710	14,663	8,701	10,680
<b>Cash and cash equivalents at the end of the financial year</b>	29	10,164	12,710	8,122	8,701

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

### 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).

Macquarie Bank is a for-profit entity for the purpose of preparing the financial statements.

##### 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 Bank Limited and its subsidiaries (Consolidated Entity) and the consolidated Financial Report such as:

- fair value of financial assets and financial liabilities including accounting for day 1 profit or loss (Note 38)
- impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures and assets under operating lease (Notes 1(xiii), 1(xv), 1(xvii), 8, 10, 13, 14, 16)
- distinguishing between whether assets or a business is acquired or disposed (Note 1(iii))
- determination of control of subsidiaries and structured entities (Notes 1(ii) and 35)
- determination of significant influence over associates (Note 1(ii))
- 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(xviii) and 15), and
- recognition and measurement of supplemental income, maintenance liabilities and end of lease compensation (Note 1(xx), 9 and 21).

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

Management believes the estimates used in preparing the Financial Report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible,

on the basis of existing knowledge, that outcomes within the next financial year that are different from Management's assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

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

###### *AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception*

AASB 2015-5 introduces a choice in application of the equity method by a non-investment entity investor to an investment entity investee. When a non-investment entity investor applies the equity method to an investment entity associate or joint venture, the investor may retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries, or reverse the fair value measurement to conform to the accounting policies of the investor.

AASB 2015-5 is required to be retrospectively applied.

Application in the current year did not have a material impact on the financial position or performance of the Consolidated Entity.

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

###### *AASB 9 Financial Instruments*

AASB 9 Financial Instruments will replace AASB 139 Financial Instruments: Recognition and Measurement with an effective date for Macquarie Bank of 1 April 2018. The new standard results in changes to accounting policies for financial assets and financial liabilities covering classification and measurement, impairment and hedge accounting.

##### Classification and Measurement:

###### Financial assets

AASB 9 has three classification categories for financial assets; amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification is based on the business model under which the financial instrument is managed and its contractual cash flows.

Compared to AASB 139, the FVTOCI and amortised cost categories will be added and held-to-maturity, loans and receivables and available-for-sale classification categories will be removed.

Under AASB 9, financial assets with embedded derivatives are classified in their entirety, without separating any derivative element.

The Consolidated Entity will apply the following policies for the newly adopted classification categories under AASB 9.

###### *Amortised cost*

A financial asset will be measured at amortised cost if both of the following conditions are met:

- (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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## NOTE 1

### Summary of significant accounting policies continued

#### FVTOCI

A financial asset will be measured at FVTOCI if both of the following conditions are met:

- (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### FVTPL

All financial assets that are not measured at amortised cost or FVTOCI will be measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL unless Macquarie Bank irrevocably elects to present subsequent changes in the fair value in other comprehensive income. Macquarie Bank does not expect to make this election.

The Consolidated Entity may also irrevocably elect to designate a financial asset as measured at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch.

#### Business model assessment

The Consolidated Entity will determine the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- (i) how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Consolidated Entity's key management personnel;
- (ii) the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- (iii) how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

#### Financial liabilities:

The component of change in fair value of financial liabilities designated at fair value through profit or loss due to Macquarie Bank's own credit risk is 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. Under AASB 139, this component was recognised in profit or loss.

#### Impairment:

AASB 9 replaces the incurred loss model of AASB 139 with an expected loss model, resulting in an acceleration of impairment recognition.

The impairment requirements apply to financial assets measured at amortised cost and FVTOCI, lease receivables, amounts receivable from contracts with customers as defined in AASB 15 Revenue from Contracts with Customers, loan commitments, certain letters of credit and financial guarantee contracts.

Under the general model, the Consolidated Entity will apply a three-stage approach to measuring the expected credit loss (ECL) based on credit migration between the stages. Where ECL is modelled collectively for portfolios of exposures, it is modelled

as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD).

The assessment of credit risk, and the estimation of ECL, will 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.

The impairment allowance is intended to be more forward-looking under AASB 9.

#### (i) Stage 1 – 12 month ECL

At initial recognition, ECL is measured as the product of the 12 month PD, LGD and EAD, adjusted for forward-looking information.

#### (ii) Stage 2 – Lifetime ECL not credit-impaired

When there is a significant increase in credit risk (SICR), the ECL is increased to reflect the product of the lifetime PD, LGD and EAD, adjusted for forward-looking information.

#### (iii) Stage 3 – Lifetime ECL credit-impaired

An ECL is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the effective interest rate (EIR) for that exposure.

This modelling methodology does not change from AASB 139. For credit-impaired exposures that are modelled collectively, ECL is measured as the product of the lifetime PD, LGD and EAD, adjusted for forward-looking information.

#### (iv) Purchased or originated credit-impaired

The ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for forward-looking information or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit-adjusted effective interest rate, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in profit or loss as an impairment expense or gain.

Credit impaired assets generally match the Australian Prudential Regulatory Authority (APRA) definition of default which includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

#### (v) Simplified model for trade receivables and operating lease receivables

The Consolidated Entity may choose to adopt a simplified model for these exposures which measures ECL under the Stage 2 approach unless the exposures are credit impaired in which case they would be measured under the Stage 3 approach. The Consolidated Entity must apply this simplified model to trade and other receivables that do not contain a significant financing component.

#### Hedge accounting:

Hedge accounting under AASB 9 is more closely aligned with financial risk management, and may be applied to a greater variety of hedging instruments and risks.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

##### Implementation Project:

A project was initiated in 2015 to manage the implementation of AASB 9 while considering all available accounting and regulatory guidance. The project is jointly sponsored by the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO). A steering committee has been established that is responsible for governance of the project and includes senior executives from the Financial Management Group, Risk Management Group and Corporate Operations Group.

The key responsibilities of the steering committee include setting scope and milestones for the project, ensuring proper resourcing, setting accounting policy, making key project decisions and communicating the impact of the project.

The classification and measurement stream has defined the significant business models and cash flow characteristics for all financial assets under the scope of AASB 9.

The Consolidated Entity does not expect to irrevocably elect to present subsequent changes in the fair value of equity instruments in OCI, which means that investment securities available for sale – equity instruments will be classified at FVTPL upon adoption of AASB 9.

The combined application of the contractual cash flow characteristics and business model tests to balances that existed as at 31 March 2017 will result in an increase in financial assets measured at fair value, if the standard was adopted as at 31 March 2017. This measurement change is not expected to result in a material change to equity. This assessment and the transition adjustment to retained earnings is subject to the composition of financial assets held at the date of transition.

The impairment stream of the project is continuing to focus on the design and development of the ECL impairment model components for PD, LGD, EAD and SICR, including incorporating forward-looking information. The models are being developed for retail and wholesale exposures separately which reflects the way the Consolidated Entity manages credit risk.

The impairment stream is also focused on defining the operational requirements for the calculation of ECL and the design of the technology solution for tracking credit migration and calculating ECL.

Until the models have been developed and tested, the Consolidated Entity is unable to provide a quantitative impact of the adoption of the standard, however, based on estimates on 31 March 2017 balances, the adoption is not expected to result in a material change to equity.

The hedging stream is currently focused on amending the hedge documentation and policies to be applied on transition. The adoption of the hedge accounting requirements is not expected to have a material impact when compared to AASB 139.

##### Transition:

The Consolidated Entity will not early adopt AASB 9 other than the requirement relating to own credit risk which was adopted prospectively from 1 October 2016 as the retrospective impact was not considered to be material. Fair value movements relating to own credit risk of financial liabilities designated at fair value through profit or loss were previously recognised in the Income Statement and will now be recognised in Other Comprehensive Income.

All other changes in accounting policies from the adoption of the standard will be applied from 1 April 2018 with no restatement of

comparative periods. Differences arising in the carrying value of financial assets and liabilities will be recognised as an adjustment to opening retained earnings and reserves at 1 April 2018.

##### AASB 15 Revenue from Contracts with Customers

AASB 15 replaces all current guidance on revenue recognition from contracts with customers. It requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services are transferred to the customer. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

AASB 15 also specifies the accounting treatment for costs incurred to obtain and fulfil a contract. Incremental costs are recognised as an asset if the entity expects to recover them. Any capitalised contract costs are amortised on a systematic basis that is consistent with the transfer of the related goods and services.

The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2018 and is expected to apply the standard retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings.

AASB 15 specifically excludes financial instruments. As such, the impacted revenue streams are limited to fee-based revenue items.

An assessment has been performed on existing revenue streams. Based on this assessment, it is not expected that Macquarie Bank will be materially impacted. Any transition adjustment to retained earnings is subject to the revenue streams existing at the date of transition.

##### AASB 16 Leases

AASB 16 replaces the current AASB 117 Leases standard and sets out a comprehensive model for identifying lease arrangements and the subsequent measurement. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The majority of leases from the lessee perspective within the scope of AASB 16 will require the recognition of a 'right-of-use' asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and depreciation replacing operating lease expense. Accounting for leases from the Consolidated Entity's perspective as lessor remains unchanged under AASB 16.

AASB 16 is effective for the Consolidated Entity for the annual periods beginning on or after 1 April 2019 with the option to early adopt in the financial year beginning 1 April 2018.

The Consolidated Entity will apply the standard retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. Alternative methods of calculating the 'right-of-use' asset are allowed under AASB 16 which impact the size of the transition adjustment. Macquarie is still evaluating which method to apply.

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### Summary of significant accounting policies continued

An initial assessment has been performed based on operating leases that exist in the current reporting period. Based on this assessment it is not anticipated that there will be a material impact to the statement of financial position or equity, regardless of the method for calculating the 'right-of-use' asset that is adopted. This assessment is subject to the composition of operating leases at the date of transition. A schedule of current operating lease commitments is disclosed in Note 34.

#### *AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

The amendment addresses the accounting for cash-settled share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The requirements are effective for Macquarie Bank on 1 April 2018. The Consolidated Entity has early adopted this amendment. Retrospective application did not have a material impact on the financial position nor performance of the Consolidated Entity.

### (ii) Principles of consolidation

#### Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) in relation to which the Consolidated Entity has:

- (i) power to direct the relevant activities
- (ii) exposure to significant variable returns, and
- (iii) the ability to utilise power to affect the Consolidated Entity's own returns.

The determination of control is based on current facts and circumstances and is continuously assessed.

The Consolidated Entity has power over an entity when it has existing substantive rights that give it the current ability to direct the entity's relevant activities. Relevant activities are those activities that significantly affect the entity's returns. The Consolidated Entity evaluates whether it has the power to direct the relevant activities. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates whether it has exposure or rights to variable returns that, in aggregate, are significant. All variable returns are considered including, but not limited to, debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

#### Structured entities

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

the Consolidated Entity has power over the relevant activities as well as exposure to significant variable returns of the SE.

Where the Consolidated Entity has power over, is exposed to significant variable returns through the residual risk associated with its involvement in 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.

#### Consolidation

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 Consolidated Entity 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 Consolidated Entity determines 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 and the capacity to influence returns 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 in the consolidated statements of comprehensive income.

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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

##### (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 exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity, and those arising on borrowings are capitalised and included in interest expense using the effective interest method.

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 statements, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration provided, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statement.

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

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

- the nature of the Consolidated Entity's industry and business model, which affects the nature of an input, process or output
- whether the acquisition included at least a majority of the critical inputs (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 five reportable segments as disclosed in Note 3. Information about products and services and geographical segments is based on the financial information used to produce the Consolidated Entity's financial statements.

##### (v) Foreign currency translation

###### Functional and presentation currency

Items included in the financial statements of foreign operations are measured using the currency of the primary economic environment in which the foreign operation operates (the functional currency). The Consolidated Entity's and the Company's financial statements are presented in Australian dollars (the presentation currency), which is also the Company's functional currency.

###### Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange 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(xii)).

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(xii)).

###### 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:

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### Summary of significant accounting policies continued

#### 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, 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 when it is highly probable those conditions will not 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.

#### Net trading income

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

#### Net operating lease income

Operating lease income is recognised on a straight-line basis over the lease term. It comprises operating lease income and supplemental rent and is presented net of depreciation expense.

#### 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.

#### (vii) Taxation

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 Consolidated Entity and the Company 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 the amount expected to be paid to/(recovered from) tax authorities based on its understanding of the law.

#### Tax consolidation

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

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

#### Goods and services tax (GST)

Items in the profit or loss and amounts capitalised to the statement of financial position as assets are recognised net of GST (or other value-added tax), except where the tax incurred is not recoverable from the taxation authority. In these circumstances, the tax is recognised as part of the expense or included in the cost of the asset.

Receivables and payables are inclusive of GST. Cash flows are presented on a gross basis in the statement of cash flows.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 CONTINUED

### NOTE 1

#### Summary of significant accounting policies *continued*

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

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

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

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

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

#### (ix) Recognition and derecognition of financial instruments

Financial instruments are recognised when the Consolidated Entity becomes a party to the contractual provisions of the instrument. Specific policies are provided for the various financial instrument categories below.

Financial assets are derecognised from the statement of financial position when the rights to cash flows have expired (for example because the borrower repays its obligations), the loan is sold and substantially all the risks and rewards of ownership are transferred.

Financial liabilities are derecognised from the statement of financial position when the Consolidated Entity's obligation has been discharged, cancelled or has expired.

Where an existing financial instrument is replaced by another with the same counterparty on substantially different terms, or the terms of an existing instrument are substantially modified, the exchange or modification is treated as a derecognition of the original instrument and the recognition of a new instrument, with the difference in the respective carrying amounts recognised in the income statement.

#### (x) 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 with the intent of being actively traded.

Assets and liabilities included in the trading portfolio are carried at fair value (see Note 38). Commodities are measured at fair value less costs to sell, in accordance with the broker-trader exception. Realised and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of trading portfolio financial assets. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset 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, and the derecognition criteria are met, it derecognises the asset and recognises a trade receivable from trade date until settlement date. The same trade date accounting applies for available for sale financial instruments and financial instruments designated at fair value through profit or loss.

The Consolidated Entity uses trade date accounting when accounting for purchases and sales of trading portfolio financial liabilities.

#### (xi) 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 in 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 ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit or loss is deferred and is recognised in the income statement over the life of the transaction or when the inputs become observable.



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### Summary of significant accounting policies continued

#### (xii) 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 - Fair value of financial assets and financial liabilities. Movements in the cash flow hedging reserve in equity are shown in Note 28 - Reserves, retained earnings and non-controlling interests.

#### (xiii) 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. Loans and receivables are recognised on settlement date, when cash is advanced to the borrower.

#### 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.

Management may elect 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 and financial liabilities managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and reporting is provided on that basis to key management personnel, 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 in this category are available for sale and may be sold should the need arise, including for purposes of liquidity, or due to the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair 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).

Dividends from equity securities available for sale are recognised in the income statement when the Consolidated Entity becomes entitled to the dividend or distribution as disclosed in Note 1(vi).

#### (xiv) 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

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.

#### (xv) Impairment

##### Loan assets held at amortised cost

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

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

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

Changes in assumptions used for estimating future cash flows could result in a change in the estimated provisions for impairment on loan assets at the end of a reporting period.

If, in a subsequent period, the amount of impairment 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.

When the Consolidated Entity concludes that there is no reasonable expectation of recovering cash flows from the loan asset and all possible collateral has been realised, the loan is written off, either partially or in full, against the related provision. 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 losses recognised in the income statement for equity securities classified as available for sale are not subsequently reversed through the income statement. However impairment losses recognised for debt investment securities classified as available for sale are subsequently reversed through the income statement if the fair value increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

##### Interests in associates and joint ventures

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

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

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.

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### Summary of significant accounting policies continued

#### 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.

#### (xvi) 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 Bank 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 insurance business 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.

#### (xvii) Property, plant and equipment

Property, plant and equipment are stated at historical cost (which includes directly attributable borrowing costs) less accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are reviewed for impairment (or possible reversal of previous impairment losses) 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 to 3.3%
Furniture, fittings and leasehold improvements <sup>(1)</sup>	10 to 20%
Equipment	33 to 50%
Infrastructure assets	2 to 10%
Aviation <sup>(2)</sup>	2 to 8%
Meters	5 to 10%
Rail cars	3 to 5%
Other operating lease assets	2 to 50%

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

(2) Includes aircraft, for which depreciation is calculated on a diminishing-value basis.

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

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

#### (xviii) 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 acquisition 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. Where no contractual or legal limitation exists, 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 for 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.

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**NOTE 1**

**Summary of significant accounting policies continued**

**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.

**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.

**(xix) Financial liabilities**

The Consolidated Entity has on issue debt securities and instruments which are initially recognised on settlement date 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. Management may elect 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 in accordance with a documented risk management or investment strategy, and reporting is provided on that basis to key management personnel, or
- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

For financial liabilities designated at fair value through profit or loss, the Consolidated Entity uses trade date accounting on recognition and settlement date accounting on derecognition of the obligation.

Interest expense on such items is recognised in the income statement as interest expense using the effective interest method.

**(xx) 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 to contribute towards maintenance expenditure related to Major Maintenance Events (MMEs). 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 in the period in which it is earned.

In certain circumstances, the Consolidated Entity agrees to an alternative mechanism to earn supplemental rent known as end of lease compensation. This compensation is typically calculated on the basis of the condition of each major component at the end of the lease relative to the commencement of the lease measured by hours, number of cycles or calendar time at an agreed rate specified in the lease. 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.

At the beginning and throughout the term of each lease, the Consolidated Entity estimates the maintenance liability for 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 expenses are recorded in the income statement and adjusted from supplemental rent revenue. Maintenance liabilities are recognised separately and disclosed in Note 21 – Other liabilities.

**(xxi) Provisions**

**Employee benefits**

A liability for employee benefits is recognised by the entity that has the obligation to the employee. Generally, this is consistent with the legal position of the parties to the employment contract.

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the statement of financial position at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made.

In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Commonwealth Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows. Provisions for unpaid employee benefits are derecognised when the benefit is settled, or is transferred to another entity and the Company and Consolidated Entity are legally released from the obligation and do not retain a constructive obligation.

**Dividends**

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

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## NOTE 1

### Summary of significant accounting policies continued

#### (xxii) Performance based remuneration

##### Share-based payments

The ultimate parent company, MGL operates share-based compensation plans, which include awards (including those delivered through the MEREP) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 32. The Consolidated Entity recognises an expense and a corresponding increase in equity in case of equity settled awards or a corresponding increase in liability in case of cash settled 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 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) Investment property

Investment properties are initially recognised at cost and subsequently stated at fair value at each balance date. Any change in fair value is recognised in the consolidated statement of comprehensive income in the period.

#### (xxv) 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 minimum lease payments plus an estimate of the value of any unguaranteed residual value 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.

#### (xxvi) 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.

#### (xxvii) Loan capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method (for debt host component of convertible preference securities and subordinated debt at amortised cost).

#### (xxviii) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### (xxix) 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 an 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. Any increase in ownership of an associate that remains an associate solely increases the investment and does not create any profit or loss.

#### (xxx) Discontinued operations

A discontinued operation is a component of the entity's business that represents a separate major line of business or area of operation that has been disposed of or is classified as held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period. The results of the discontinued operations are presented separately on the face of the income statements.

#### (xxxi) Comparatives

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

#### (xxxii) Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, amounts in the Directors' Report and Financial Report have been rounded off to the nearest million Australian dollars unless otherwise indicated.

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	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 2</b>				
<b>Profit for the financial year</b>				
<b>Net interest income</b>				
Interest and similar income received/receivable	4,778	5,083	4,276	4,122
Interest expense and similar charges paid/payable	(2,608)	(2,911)	(2,490)	(2,685)
Net interest income	2,170	2,172	1,786	1,437
<b>Fee and commission income</b>				
Brokerage and commissions	369	436	247	309
Portfolio administration fee	237	229	7	8
Lending and securitisation fee	140	135	111	196
Other fee and commission income <sup>(1)</sup>	74	130	49	64
Total fee and commission income	820	930	414	577
<b>Net trading income/(expense)<sup>(2)</sup></b>				
Equities	436	600	317	343
Commodities <sup>(3)</sup>	1,152	1,266	561	560
Credit, interest rate and foreign exchange products	79	258	(105)	468
Net trading income	1,667	2,124	773	1,371
<b>Net operating lease income</b>				
Rental income <sup>(4)</sup>	1,666	1,561	70	40
Depreciation on operating lease assets (Note 13)	(744)	(680)	(46)	(26)
Net operating lease income	922	881	24	14
<b>Share of net (losses)/profits of associates and joint ventures accounted for using the equity method</b>				
	(19)	22	–	–

(1) Other fee and commission income of the Consolidated Entity includes life investment and insurance premium income of \$129 million (2016: \$230 million) and related expenses of \$97 million (2016: \$161 million).

(2) Net trading income of the Consolidated Entity and the Company includes net fair value loss of \$16 million (2016: \$138 million) and \$6 million (2016: \$135 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss, respectively. This amount includes \$31 million loss (2016: \$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 credit risk of the Consolidated Entity and the Company. From 1 October 2016, fair value movements due to changes in the own credit risk were recognised in OCI.

Fair value changes relating to derivatives are also reported in net trading income which largely offsets the fair value changes relating to financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the economic interest rate risk where hedge accounting requirements are not met. Refer to Note 1(xi) – Derivative instruments.

(3) Net trading income of the Consolidated Entity and the Company includes transportation and storage costs of \$266 million (2016: \$300 million) and \$72 million (2016: \$71 million), respectively.

(4) Rental income of the Consolidated Entity includes net supplemental rent on aircraft of \$128 million (2016: \$130 million).

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	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 2</b>				
<b>Profit for the financial year continued</b>				
<b>Other operating income and charges</b>				
Net gain on sale of investment securities available for sale	39	28	34	7
Impairment charge on investment securities available for sale	(32)	(33)	(28)	(22)
Net gain on sale of interests in associates and joint ventures	110	20	57	15
Impairment (charge)/reversal on interests in associates and joint ventures	(6)	(4)	(11)	38
Gain on disposal of assets under operating lease	16	8	–	–
Net gain/(loss) on disposal, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale <sup>(1)</sup>	377	(24)	51	(28)
Impairment charge on subsidiaries	–	–	(164)	(48)
Impairment charge on intangible assets and other non-financial assets	(45)	(60)	(18)	(13)
Dividends/distributions received/receivable from:				
Investment securities available for sale	10	38	11	41
Subsidiaries and associates	–	–	734	2,920
Management fees, group service charges and cost recoveries	–	–	292	357
Individually assessed provisions for impairment and write offs:				
Loan assets provided for (Note 10)	(168)	(418)	(138)	(403)
Other receivables provided for	(5)	(6)	(4)	(4)
Recovery of loans previously provided for (Note 10)	19	19	12	19
Recovery of other receivables previously provided for	4	–	–	–
Loans written off	(147)	(109)	(92)	(57)
Recovery of loans previously written off	44	23	25	3
Collective allowance for credit losses reversed/(provided for) during the financial year:				
Loan assets (Note 10)	5	(6)	26	28
Other assets	(5)	(3)	(1)	(1)
Other income/(charges)	45	41	(1)	(52)
<b>Total other operating income and charges<sup>(2)</sup></b>	<b>261</b>	<b>(486)</b>	<b>785</b>	<b>2,800</b>
<b>Net operating income</b>	<b>5,821</b>	<b>5,643</b>	<b>3,782</b>	<b>6,199</b>

(1) Includes \$240 million gain on sale of Macquarie Life's risk insurance business. Refer Note 42 – Acquisitions and disposals of subsidiaries and businesses.

(2) Prior comparative financial year has been reclassified to conform to current financial year presentation. Net operating lease income was previously reported as a component of total other operating income and charges.

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	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 2</b>				
<b>Profit for the financial year continued</b>				
<b>Employment expenses</b>				
Salary and related costs including commissions, superannuation and performance-related profit share	(1,319)	(1,297)	(997)	(959)
Share-based payments	(163)	(132)	(104)	(82)
(Provision for)/reversal of long service leave and annual leave	(5)	1	(4)	2
<b>Total employment expenses</b>	<b>(1,487)</b>	<b>(1,428)</b>	<b>(1,105)</b>	<b>(1,039)</b>
<b>Brokerage, commission and trading-related expenses</b>				
Brokerage and other trading-related expenses	(518)	(531)	(335)	(348)
Other fee and commission expenses	(108)	(109)	(92)	(92)
<b>Total brokerage, commission and trading-related expenses</b>	<b>(626)</b>	<b>(640)</b>	<b>(427)</b>	<b>(440)</b>
<b>Occupancy expenses</b>				
Operating lease rentals	(10)	(7)	(1)	(1)
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 13)	(2)	(3)	–	–
Other occupancy expenses	(106)	(102)	(86)	(83)
<b>Total occupancy expenses</b>	<b>(118)</b>	<b>(112)</b>	<b>(87)</b>	<b>(84)</b>
<b>Non-salary technology expenses</b>				
Information services	(83)	(74)	(63)	(56)
Depreciation: equipment (Note 13)	(3)	(3)	(2)	(1)
Service provider and other non-salary technology expenses	(72)	(74)	(58)	(63)
<b>Total non-salary technology expenses</b>	<b>(158)</b>	<b>(151)</b>	<b>(123)</b>	<b>(120)</b>
<b>Other operating expenses</b>				
Professional fees	(185)	(201)	(129)	(136)
Travel and entertainment expenses	(51)	(57)	(36)	(39)
Amortisation of intangible assets (Note 15)	(11)	(34)	(13)	(36)
Auditor's remuneration (Note 41)	(22)	(22)	(10)	(9)
Advertising and promotional expenses	(14)	(19)	(14)	(17)
Communication expenses	(17)	(15)	(11)	(10)
Depreciation: infrastructure assets (Note 13)	(15)	(11)	–	–
Other expenses <sup>(1)</sup>	(1,384)	(1,217)	(1,106)	(974)
<b>Total other operating expenses</b>	<b>(1,699)</b>	<b>(1,576)</b>	<b>(1,319)</b>	<b>(1,221)</b>
<b>Total operating expenses</b>	<b>(4,088)</b>	<b>(3,907)</b>	<b>(3,061)</b>	<b>(2,904)</b>

(1) Other expenses include recharges from Macquarie Group Services Australia Pty Limited (MGSA).



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## NOTE 3

### Segment reporting

#### (i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclosing information about the Consolidated Entity'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. The financial information disclosed relates to ordinary activities. Financial information relating to discontinued operations is included in Note 43 – Discontinued Operations.

For internal reporting, performance measurement and risk management purposes, Consolidated Entity is divided into four Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. There were previously five Operating Groups and during the year ended 31 March 2017 Commodities and Financial Markets merged with Macquarie Securities to form CGM. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

**MAM** specialises in manufacturing and distributing a range of tailored fund and equity-based products to institutions, private banks and retail investors.

**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.

**BFS** provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisors, brokers and business clients.

**CGM** provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities.

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 the Consolidated Entity, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs and 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 or expense. These transactions eliminate on aggregation/consolidation.

Below is a selection of key policies applied in determining operating segment results.

#### Internal funding arrangements

Group Treasury has the responsibility for managing funding for the Consolidated Entity 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 Company.

Deposits are a funding source for the Consolidated Entity. 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 Consolidated Entity's 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.

#### Accounting for derivatives that economically hedge interest rate risk

For businesses that predominately earn income from lending activities (CAF and BFS), derivatives that economically hedge interest rate risk are required to be carried at fair value through net trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally only recognised at the consolidated entity level; however for segment reporting, derivatives are accounted for on an accruals basis in the Operating Group segments and changes in fair value are recognised within the Corporate segment offset by the effect of hedge relationships at the Consolidated Entity level.

#### Central Service Groups

Central Service Groups recover their costs from Operating Groups generally on either a time and effort allocation basis or a fee for service basis. Central Service Groups include COG, FMG, RMG, Legal and Governance and Central Executive.

#### Performance-related profit share and share based payments expense

Performance-related profit share and share based payments expense relating to the MEREP is recognised in the Corporate segment and not allocated to Operating Groups.

#### Income tax

Income tax expense and benefits are recognised in the Corporate segment and not allocated to Operating Groups. However, to recognise an Operating Group's contribution to permanent income tax differences, an internal management revenue or charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on aggregation.

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Macquarie Asset  
Management  
\$m

Corporate and  
Asset Finance  
\$m

**NOTE 3**

**Segment reporting continued**

The following is an analysis of the Consolidated Entity's revenue and results by reportable segment for the financial year. Prior financial year comparative information has been reclassified to conform to current financial year presentation.

Net interest and trading income	104	694
Fee and commission income/(expense)	65	58
Net operating lease income	13	904
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–	–
Other operating income and charges:		
Impairment charges, write-offs and provisions, net of recoveries	1	(111)
Other operating income and charges	(13)	233
Internal management revenue/(charge)	1	40
Net operating income	171	1,818
Total operating expenses	(117)	(631)
Profit/(loss) before tax	54	1,187
Tax expense	–	–
Profit/(loss) after income tax	54	1,187
Loss attributable to non-controlling interests	–	1
Profit/(loss) attributable to equity holders	54	1,188
Distributions paid or provided for on MIS	–	–
<b>Net profit/(loss) contribution attributable to ordinary equity holders from</b>	<b>54</b>	<b>1,188</b>
<b>Reportable segment assets</b>	<b>2,742</b>	<b>37,959</b>
Net interest and trading income	113	834
Fee and commission income/(expense)	54	44
Net operating lease income	12	865
Share of net profits of associates and joint ventures accounted for using the equity	–	7
Other operating income and charges:		
Impairment charges, write-offs and provisions, net of recoveries	2	(168)
Other other operating income and charges	8	67
Internal management revenue/(charge)	2	60
Net operating income	191	1,709
Total operating expenses	(116)	(589)
Profit/(loss) before tax	75	1,120
Tax expense	–	–
Profit/(loss) after income tax	75	1,120
Loss/(profit) attributable to non-controlling interests	–	1
Profit/(loss) attributable to equity holders	75	1,121
Distributions paid or provided for on MIS	–	–
Net profit/(loss) contribution attributable to ordinary equity holders from continuing	75	1,121
<b>Reportable segment assets</b>	<b>2,848</b>	<b>40,854</b>

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Banking and Financial Services \$m	Commodities and Global Market \$m	Corporate \$m	Total \$m
CONSOLIDATED 2017			
1,049	1,982	8	3,837
469	339	(111)	820
–	–	5	922
6	–	(25)	(19)
(91)	(157)	22	(336)
205	148	24	597
5	11	(57)	–
1,643	2,323	(134)	5,821
(1,133)	(1,447)	(760)	(4,088)
510	876	(894)	1,733
–	–	(509)	(509)
510	876	(1,403)	1,224
–	(1)	12	12
510	875	(1,391)	1,236
–	–	(15)	(15)
510	875	(1,406)	1,221
38,096	81,366	7,278	167,441
CONSOLIDATED 2016			
941	2,192	216	4,296
524	329	(21)	930
–	–	4	881
1	5	9	22
(43)	(331)	(57)	(597)
35	47	(46)	111
4	(2)	(64)	–
1,462	2,240	41	5,643
(1,114)	(1,508)	(580)	(3,907)
348	732	(539)	1,736
–	–	(681)	(681)
348	732	(1,220)	1,055
–	–	10	11
348	732	(1,210)	1,066
–	–	(16)	(16)
348	732	(1,226)	1,050
39,520	87,358	11,029	181,609

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**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:

**Lending:** corporate and structured finance, banking activities, mortgages and leasing

**Financial Markets:** trading in fixed income, equities, currency, commodities and derivative products

**Asset and Wealth Management:** manufacture and distribution of fund management products, and

**Capital Markets:** underwriting, facilitation, broking.

	CONSOLIDATED	
	2017 \$m	2016 \$m
<b>Revenue from external customers</b>		
Lending	<b>5,720</b>	5,575
Financial Markets	<b>3,238</b>	3,738
Asset and Wealth Management	<b>778</b>	761
Capital Markets	<b>151</b>	174
<b>Total revenue from external customers<sup>(1)</sup></b>	<b>9,887</b>	10,248

(1) Revenue from external customers includes interest and similar income, fee and commission income, net trading income, operating lease income, income associated with investing activities and other income.

**(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.

	CONSOLIDATED 2017		CONSOLIDATED 2016	
	Revenue from external customers \$m	Non current assets <sup>(1)</sup> \$m	Revenue from external customers \$m	Non current assets <sup>(1)</sup> \$m
Australia	<b>4,731</b>	<b>784</b>	4,979	783
Europe, Middle East and Africa <sup>(2)</sup>	<b>2,689</b>	<b>9,266</b>	2,588	10,138
Americas <sup>(3)</sup>	<b>1,699</b>	<b>1,350</b>	1,855	1,143
Asia Pacific	<b>768</b>	<b>117</b>	826	175
<b>Total</b>	<b>9,887</b>	<b>11,517</b>	10,248	12,239

(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 United Kingdom of \$1,956 million (2016: \$1,796 million).

(3) Included within this balance is external revenue generated in the United States of America of \$1,605 million (2016: \$1,818 million).

**(iv) Major customers**

The Consolidated Entity does not rely on any major customers.

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	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 4</b>				
<b>Income tax expense</b>				
<b>(i) Income tax (expense)/benefit</b>				
Current tax expense	(387)	(681)	(109)	(334)
Deferred tax (expense)/benefit	(122)	(10)	36	66
<b>Total income tax expense</b>	<b>(509)</b>	<b>(691)</b>	<b>(73)</b>	<b>(268)</b>
Income tax (expense)/benefit is attributable to:				
Profit from continuing operations	(509)	(681)	(73)	(276)
Profit from discontinued operations	–	(10)	–	8
<b>Total income tax expense</b>	<b>(509)</b>	<b>(691)</b>	<b>(73)</b>	<b>(268)</b>
<b>(ii) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable</b>				
Prima facie income tax expense on operating profit <sup>(1)</sup>	(520)	(836)	(217)	(1,178)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	4	(161)	(43)	(182)
Impairment (charge)/reversal on subsidiaries	–	–	(40)	2
Intra-group dividends	–	–	220	876
Gain on sale of discontinued operations	–	303	–	196
Other items	7	3	7	18
<b>Total income tax expense</b>	<b>(509)</b>	<b>(691)</b>	<b>(73)</b>	<b>(268)</b>
<b>(iii) Tax benefit/(expense) relating to items of other comprehensive income</b>				
Available for sale reserve	19	(20)	–	(1)
Cash flow hedges	(14)	(14)	1	(16)
Foreign currency translation reserve	2	3	–	–
<b>Total tax benefit/(expense) relating to items of other comprehensive income</b>	<b>7</b>	<b>(31)</b>	<b>1</b>	<b>(17)</b>
<b>(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities</b>				
Fixed assets	(1)	57	17	50
Intangible assets	(1)	(1)	(1)	3
Investments	(15)	121	(20)	40
Tax losses	(27)	(33)	(7)	(27)
Leasing and financial instruments	(115)	(45)	(14)	65
Other assets and liabilities	37	(109)	61	(65)
<b>Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities</b>	<b>(122)</b>	<b>(10)</b>	<b>36</b>	<b>66</b>

(1) Prima facie income tax on operating profit is calculated at the rate of 30% (2016: 30%).

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

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

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<b>NOTE 5</b>				
<b>Dividends and distributions paid or provided for</b>				
<b>(i) Dividends paid</b>				
<b>Ordinary share capital</b>				
2016 Special dividend paid <sup>(1)</sup>	–	1,140	–	3,130
Final dividend paid	644	440	644	440
Interim dividend paid	582	–	582	–
<b>Total dividends paid (Note 28)</b>	<b>1,226</b>	<b>1,580</b>	<b>1,226</b>	<b>3,570</b>

(1) The Consolidated Entity's special dividend related to the Macquarie Investment Management business within the MAM segment. This includes cash distribution of \$1,009 million and in-specie distribution of \$131 million.

**(ii) Dividends not recognised at the end of the financial year**

Since the end of the financial year, the Directors have resolved to pay a dividend. The aggregate amount of the proposed dividend expected to be paid on 11 May 2017 from retained profits at 31 March 2017, but not recognised as a liability at the end of the financial year, is \$607 million (2016: \$644 million).

**(iii) Distributions paid or provided for**  
**Macquarie Income Securities**

Distributions paid (net of distributions previously provided for)	12	13	–	–
Distributions provided for	3	3	–	–
<b>Total distributions paid or provided for (Note 28)</b>	<b>15</b>	<b>16</b>	<b>–</b>	<b>–</b>

Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares issued by the Company. Refer to Note 27 – Contributed equity for further details on these instruments.

**Macquarie Income Preferred Securities**

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

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. MIPS were redeemed in June 2015.

**Convertible Debentures**

Distributions paid (net of distributions previously provided for)	–	–	–	1
<b>Total distributions paid (Note 28)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>

As part of issue of the Macquarie Income Preferred Securities, the London branch of the Company issued reset subordinated convertible debentures, each with a face value of £50,000 to Macquarie Capital Funding LP, a subsidiary of the Company. These convertible debentures were redeemed in 2016.

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	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 6</b>				
<b>Receivables from financial institutions</b>				
Cash and other receivables <sup>(1)</sup>	7,645	7,606	6,179	5,188
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(2)</sup>	17,920	23,350	17,728	23,107
<b>Total receivables from financial institutions</b>	<b>25,565</b>	<b>30,956</b>	<b>23,907</b>	<b>28,295</b>

(1) Included within this balance is \$107 million (2016: \$132 million) provided as security over payables to other financial institutions.

(2) The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2017 is \$18,120 million (2016: \$25,074 million). 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 that the Consolidated Entity is permitted to sell or re-pledge in the absence of default is \$18,120 million (2016: \$25,039 million), of which the fair value of collateral sold or re-pledged is \$4,605 million (2016: \$5,967 million).

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

## NOTE 7

### Trading portfolio assets

Equities				
Listed	12,003	9,733	8,796	6,916
Unlisted	10	44	2	36
Commodities	5,602	4,462	4,227	3,490
Commonwealth government securities	4,862	4,857	4,862	4,850
Foreign government securities and treasury notes	2,509	2,121	1,853	1,861
Corporate loans and securities	1,620	1,833	863	997
Other	31	12	6	6
<b>Total trading portfolio assets<sup>(1)</sup></b>	<b>26,637</b>	<b>23,062</b>	<b>20,609</b>	<b>18,156</b>

(1) Included within these balances are trading assets of \$5,124 million (2016: \$4,056 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 and the Company.

## NOTE 8

### Investment securities available for sale

Debt securities <sup>(1)</sup>	4,585	8,582	4,334	8,252
Equity securities				
Listed	56	90	49	83
Unlisted	541	336	418	159
<b>Total investment securities available for sale<sup>(2)</sup></b>	<b>5,182</b>	<b>9,008</b>	<b>4,801</b>	<b>8,494</b>

(1) Included within this balance is \$509 million (2016: \$479 million) provided as security over payables to financial institutions.

(2) Included within this balance is \$nil (2016: \$408 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, \$1,831 million (2016: \$4,327 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$1,636 million (2016: \$4,335 million) by the Company.

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	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 9</b>				
<b>Other assets</b>				
Debtors and prepayments	4,475	2,995	2,928	2,136
Security settlements	2,315	2,186	2,105	2,059
Life investment linked contracts and other unitholder assets	722	850	–	–
Assets of disposal groups classified as held for sale	477	241	–	–
Investment properties <sup>(1)</sup>	378	284	–	–
Income tax receivable	254	313	133	137
Other	25	49	13	6
<b>Total other assets<sup>(2)</sup></b>	<b>8,646</b>	<b>6,918</b>	<b>5,179</b>	<b>4,338</b>

(1) The fair value of investment properties was determined by independent valuers and classified as Level 3 in the fair value hierarchy (as defined in Note 38 - Fair value of financial assets and financial liabilities).

(2) Included within this balance is \$434 million (2016: \$386 million) provided as security over payables to financial institutions.

Of the above amounts, \$7,917 million (2016: \$6,918 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$5,166 million (2016: \$4,338 million) by the Company.



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	2017			2016		
	Gross \$m	Individually assessed provisions for impairment \$m	Net \$m	Gross \$m	Individually assessed provisions for impairment \$m	Net \$m
<b>NOTE 10</b>						
<b>Loan assets held at amortised cost</b>						CONSOLIDATED
Residential mortgage loans <sup>(1)</sup>	30,338	(3)	30,335	31,378	(14)	31,364
Lease and retail financing <sup>(1)</sup>	19,579	(66)	19,513	19,326	(53)	19,273
Corporate and commercial lending	15,940	(287)	15,653	17,280	(230)	17,050
Margin money placed	7,270	–	7,270	8,417	–	8,417
Relationship banking mortgages	2,453	–	2,453	2,241	–	2,241
Investment and insurance premium lending	723	(1)	722	1,008	(2)	1,006
<b>Total loan assets before collective allowance for credit losses</b>	<b>76,303</b>	<b>(357)</b>	<b>75,946</b>	<b>79,650</b>	<b>(299)</b>	<b>79,351</b>
Less collective allowance for credit losses			(396)			(438)
<b>Total loan assets held at amortised cost<sup>(2),(3)</sup></b>			<b>75,550</b>			<b>78,913</b>
						COMPANY
Residential mortgage loans <sup>(1)</sup>	29,251	(3)	29,248	28,169	(3)	28,166
Corporate and commercial lending	10,774	(263)	10,511	13,050	(216)	12,834
Lease and retail financing <sup>(1)</sup>	5,504	(30)	5,474	8,279	(29)	8,250
Margin money placed	4,878	–	4,878	5,340	–	5,340
Relationship banking mortgages	2,453	–	2,453	2,241	–	2,241
Investment and insurance premium lending	460	(83)	377	513	(81)	432
<b>Total loan assets before collective allowance for credit losses</b>	<b>53,320</b>	<b>(379)</b>	<b>52,941</b>	<b>57,592</b>	<b>(329)</b>	<b>57,263</b>
Less collective allowance for credit losses			(261)			(310)
<b>Total loan assets held at amortised cost<sup>(2),(3)</sup></b>			<b>52,680</b>			<b>56,953</b>

(1) Includes loans of \$16,332 million (2016: \$18,087 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(2) Includes other loans of \$464 million (2016: \$2,583 million) pledged as security over issued notes and payables to other external investors and financial institutions.

(3) Loans of \$nil (2016: \$811 million) are pledged as collateral to secure liabilities under repurchase agreements and stock lending arrangements.

Of the above amounts, \$28,490 million (2016: \$31,532 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$19,054 million (2016: \$20,475 million) by the Company.

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<b>NOTE 10</b>				
<b>Loan assets held at amortised cost</b> <i>continued</i>				
<b>Individually assessed provisions for impairment</b>				
Balance at the beginning of the financial year	299	531	329	561
Provided for during the financial year (Note 2)	168	418	138	403
Loan assets written off or sold, previously provided for	(114)	(610)	(97)	(595)
Recovery of loans previously provided for (Note 2)	(19)	(19)	(12)	(19)
Net transfer from collective provisions	25	–	23	–
Foreign exchange movements	(2)	(21)	(2)	(21)
<b>Balance at the end of the financial year</b>	<b>357</b>	<b>299</b>	<b>379</b>	<b>329</b>
<b>Individually assessed provisions as a percentage of total gross loan assets</b>	<b>0.47%</b>	<b>0.37%</b>	<b>0.71%</b>	<b>0.57%</b>

**Collective allowance for credit losses**

Balance at the beginning of the financial year	438	363	310	275
(Reversed)/provided for during the financial year (Note 2)	(5)	6	(26)	(28)
(Disposal)/acquisition during the financial year	(7)	66	3	59
Net transfer (to specific)/from other provisions	(25)	5	(23)	5
Foreign exchange movements	(5)	(2)	(3)	(1)
<b>Balance at the end of the financial year</b>	<b>396</b>	<b>438</b>	<b>261</b>	<b>310</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 does not include retail products such as hire purchase, chattel mortgages and consumer loans.

	2017			2016		
	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
						CONSOLIDATED
Not later than one year	2,496	(259)	2,237	2,035	(196)	1,839
Later than one year and not later than five years	3,715	(429)	3,286	4,187	(431)	3,756
Later than five years	107	(24)	83	156	(34)	122
<b>Total</b>	<b>6,318</b>	<b>(712)</b>	<b>5,606</b>	<b>6,378</b>	<b>(661)</b>	<b>5,717</b>

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	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 11</b>				
<b>Impaired financial assets</b>				
Impaired loan assets and other financial assets before individually assessed provision for impairment	875	719	922	818
Less individually assessed provision for impairment	(379)	(320)	(387)	(332)
Loan assets and other financial assets after individually assessed provision for impairment	496	399	535	486
<b>Total net impaired financial assets</b>	<b>496</b>	<b>399</b>	<b>535</b>	<b>486</b>

**NOTE 12****Other financial assets at fair value through profit or loss**

Investment securities				
Equity	405	816	379	785
Debt	72	72	72	72
Loan assets	283	169	143	148
<b>Total other financial assets at fair value through profit or loss<sup>(1)</sup></b>	<b>760</b>	<b>1,057</b>	<b>594</b>	<b>1,005</b>

(1) Includes \$10 million (2016: \$398 million) provided as security over payables to financial institutions.

Of the above amounts, \$569 million (2016: \$842 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$416 million (2016: \$812 million) by the Company.

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<b>NOTE 13</b>				
<b>Property, plant and equipment</b>				
<b>Assets for own use</b>				
<b>Land and buildings</b>				
Cost	9	9	–	–
Less accumulated depreciation	–	–	–	–
Total land and building	9	9	–	–
<b>Furniture, fittings and leasehold improvements</b>				
Cost	32	33	11	11
Less accumulated depreciation	(25)	(26)	(9)	(10)
Total furniture, fittings and leasehold improvements	7	7	2	1
<b>Equipment</b>				
Cost	13	18	7	5
Less accumulated depreciation	(8)	(13)	(3)	(2)
Total equipment	5	5	4	3
<b>Infrastructure assets</b>				
Cost	490	430	–	–
Less accumulated depreciation	(23)	(11)	–	–
Total infrastructure assets	467	419	–	–
<b>Total assets for own use</b>	<b>488</b>	<b>440</b>	<b>6</b>	<b>4</b>
<b>Assets under operating lease</b>				
<b>Aviation</b>				
Cost	10,167	10,476	–	–
Less accumulated depreciation	(1,996)	(1,597)	–	–
Total aviation	8,171	8,879	–	–
<b>Meters</b>				
Cost	1,146	1,081	–	–
Less accumulated depreciation	(411)	(391)	–	–
Total meters	735	690	–	–
<b>Rail cars</b>				
Cost	762	840	–	–
Less accumulated depreciation	(129)	(114)	–	–
Total rail cars	633	726	–	–
<b>Others</b>				
Cost	938	741	653	423
Less accumulated depreciation	(222)	(172)	(91)	(53)
Total others	716	569	562	370
<b>Total assets under operating lease</b>	<b>10,255</b>	<b>10,864</b>	<b>562</b>	<b>370</b>
<b>Total property, plant and equipment</b>	<b>10,743</b>	<b>11,304</b>	<b>568</b>	<b>374</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.

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**NOTE 13****Property, plant and equipment continued**

Reconciliation of the movement in the Consolidated Entity's property, plant and equipment at their written down value:

	Land and buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Infrastructure assets \$m	Total \$m
<b>Assets for own use</b>					
Balance as at 1 April 2015	88	53	3	–	144
Acquisitions	–	4	5	413	422
Disposals	(10)	(19)	–	–	(29)
Reclassification	(68)	(29)	–	35	(62)
Foreign exchange movements	–	–	–	(18)	(18)
Depreciation expense (Note 2)	(1)	(2)	(3)	(11)	(17)
<b>Balance as at 31 March 2016</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>419</b>	<b>440</b>
Acquisitions	–	3	3	122	128
Foreign exchange movements	–	(1)	–	(59)	(60)
Depreciation expense (Note 2)	–	(2)	(3)	(15)	(20)
<b>Balance as at 31 March 2017</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>467</b>	<b>488</b>

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**NOTE 13**

**Property, plant and equipment continued**

	Aviation \$m	Meters \$m	Rail Cars \$m	Other \$m	Total \$m
<b>Assets under operating lease</b>					
Balance as at 1 April 2015	4,526	777	744	552	6,599
Acquisitions	5,122	144	12	79	5,357
Disposals	(25)	(57)	–	(6)	(88)
Reclassification	–	(36)	(1)	42	5
Impairments	(39)	–	–	(3)	(42)
Foreign exchange movements	(264)	(24)	1	–	(287)
Depreciation expense (Note 2)	(441)	(114)	(30)	(95)	(680)
<b>Balance as at 31 March 2016</b>	<b>8,879</b>	<b>690</b>	<b>726</b>	<b>569</b>	<b>10,864</b>
Acquisitions	43	272	3	253	571
Disposals	(256)	–	–	(14)	(270)
Reclassification	1	(33)	–	1	(31)
Impairments	(18)	–	–	–	(18)
Foreign exchange movements	43	(91)	(68)	(1)	(117)
Depreciation expense (Note 2)	(521)	(103)	(28)	(92)	(744)
<b>Balance as at 31 March 2017</b>	<b>8,171</b>	<b>735</b>	<b>633</b>	<b>716</b>	<b>10,255</b>

Included in the balance of assets under operating lease are assets pledged as security over payables to 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 \$3,028 million (2016: \$3,134 million).

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

	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Not later than one year	1,150	1,153	26	8
Later than one year and not later than five years	2,591	2,927	100	11
Later than five years	640	962	110	–
<b>Total future minimum lease payments receivable</b>	<b>4,381</b>	<b>5,042</b>	<b>236</b>	<b>19</b>

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	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 14</b>				
<b>Interests in associates and joint ventures accounted for using the equity method</b>				
Loans and investments without provisions for impairment	123	355	42	54
Loans and investments with provisions for impairment	147	156	37	60
Less provisions for impairment	(67)	(85)	(26)	(42)
Loans and investments with provisions for impairment at recoverable amount	80	71	11	18
<b>Total interests in associates and joint ventures accounted for using the equity method<sup>(1),(2)</sup></b>	<b>203</b>	<b>426</b>	<b>53</b>	<b>72</b>

(1) Includes \$172 million (2016: \$403 million) relating to interests in associates and \$31 million (2016: \$23 million) relating to interests in joint ventures held by the Consolidated Entity, and \$29 million (2016: \$64 million) relating to interests in associates and \$24 million (2016: \$8 million) relating to interests in joint ventures held by the Company.

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

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

## NOTE 15

### Intangible assets

#### Goodwill

At cost	68	80	–	–
Less accumulated impairment loss	(12)	(12)	–	–
Total goodwill	56	68	–	–

#### Customer and servicing contracts

At cost	20	–	–	–
Less accumulated amortisation and impairment loss	–	–	–	–
Total customer and servicing contracts	20	–	–	–

#### Other identifiable intangible assets

At cost	289	304	270	280
Less accumulated amortisation and impairment loss	(172)	(148)	(166)	(138)
Total other identifiable intangible assets	117	156	104	142
<b>Total intangible assets</b>	<b>193</b>	<b>224</b>	<b>104</b>	<b>142</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.

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**NOTE 15**

**Intangible assets** continued

Reconciliation of the Consolidated Entity's movement in intangible assets at the written down value:

	Goodwill \$m	Intangible assets with indefinite lives \$m	Customer and servicing contracts \$m	Other identifiable intangible assets \$m	Total \$m
Balance as at 1 April 2015	72	22	2	133	229
Acquisitions	–	–	–	69	69
Disposals	–	(22)	–	–	(22)
Impairments	(3)	–	–	(14)	(17)
Amortisation (Note 2)	–	–	(2)	(32)	(34)
Foreign exchange movements	(1)	–	–	–	(1)
<b>Balance as at 31 March 2016</b>	<b>68</b>	<b>–</b>	<b>–</b>	<b>156</b>	<b>224</b>
Acquisitions	–	–	20	32	52
Write back of costs capitalised in prior years	–	–	–	(39)	(39)
Impairments	(8)	–	–	(19)	(27)
Amortisation (Note 2)	–	–	–	(11)	(11)
Foreign exchange movements	(4)	–	–	(2)	(6)
<b>Balance as at 31 March 2017</b>	<b>56</b>	<b>–</b>	<b>20</b>	<b>117</b>	<b>193</b>

**Goodwill:**

Goodwill is tested for impairment by comparing the carrying amount of Cash Generating Unit (CGU) or a group of CGUs to the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

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 cash flow 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.



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	2017 \$m	2016 \$m
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**NOTE 16****Investments in subsidiaries**

Investments at cost without provisions for impairment	8,731	7,038
Investments at cost with provisions for impairment	1,289	1,161
Less provisions for impairment	(689)	(570)
Investments with provisions for impairment at recoverable amount <sup>(1)</sup>	600	591
<b>Total investments in subsidiaries</b>	<b>9,331</b>	<b>7,629</b>

(1) The recoverable amount has been estimated using valuation techniques which incorporate the subsidiary's consolidated earnings and the Consolidated Entity'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 Aerospace Finance UK Limited (United Kingdom)
- Macquarie Aerospace Limited (Ireland)
- Macquarie Aircraft Leasing Limited (Ireland)
- Macquarie America Holdings Inc. (United States)
- Macquarie Americas Holdings Pty Limited (Australia)
- Macquarie Bank International Limited (Germany, United Kingdom)
- Macquarie CAF Holdings Inc. (United States)
- Macquarie CAF LLC (United States)
- Macquarie CAF Management LLC (United States)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Corporate and Asset Finance Limited (Australia)
- Macquarie Emerging Markets Asian Trading Pte Limited (Singapore)
- Macquarie Energy Canada Limited. (United States)
- Macquarie Energy LLC (United States)
- Macquarie Equities Limited (Australia)
- Macquarie Euro Limited (United Kingdom)
- Macquarie Finance Limited (Australia)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Limited./Financiere Macquarie Ltee (Canada)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Inc. (United States)
- Macquarie International Finance Limited (Australia)
- Macquarie Investment Management Limited (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Investments 2 Limited (United Kingdom)
- Macquarie Leasing NSW Pty. Limited (Australia)
- Macquarie Leasing Pty. Limited (Australia)
- Macquarie Life Limited (Australia)
- Macquarie Physical Metals (USA) Inc. (United States)
- Macquarie Private Debt Europe Limited (Ireland)
- Macquarie Securitisation Limited (Australia)
- Macquarie Specialist Investments Lending Limited (Australia)
- Macquarie Trading Services Inc. (United States)
- PUMA SUBFUND B-1 (Australia)
- TRAMS ABS SERIES 2015-1 (Australia)

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

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all material subsidiaries is 100%.

All material subsidiaries have a 31 March reporting date.

In accordance with ASIC instruments 15-0518 and 16-0119 the Consolidated Entity has been granted relief under section 340 of the Act from synchronising the year-end of the following consolidated entities to 31 March:

- Macquarie Energy Mexico, S. de R.L. de C.V. (formerly Macquarie Gas de Sonora S. De R.L de C.V.)
- Comercializadora Energia de la Reforma S. de R.L. de C.V.

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**Note 17**

**Deed of cross guarantee**

On 26 March 2009 the Company, Macquarie Americas Holdings Pty Limited, Macquarie Corporate and Asset Finance Limited, Macquarie Property Investment Management Holdings Limited and Pacific Rim Operations Limited entered into a deed of cross guarantee (the deed) under which each company guarantees the debts of the others. On 25 February 2010, Macquarie Australia Pty Limited entered the deed and on 22 March 2010 Boston Australia Pty Limited and MTF Holdings Pty Limited entered the deed. On the 18 April 2013, the deed was revoked in respect of Macquarie Property Investment Management Holdings Limited. On 31 March 2014, Macquarie NZ Holdings Pty Limited, Macquarie Mortgages Canada Holdings Pty Limited and Macquarie Leasing NSW Pty Limited entered the deed. On 30 March 2016, Macquarie Investors Pty Limited entered the deed. The wholly owned entities that had entered in the deed are extended licence entities, do not have any external debts and were relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

During the current year, ASIC has replaced the abovementioned Class Order with a new legislative instrument *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*. Under the new instrument, APRA regulated companies are not eligible to rely on the ASIC Class Order relief for financial reporting obligations under Part 2M.3 of the Corporations Act 2001 (Cth). MBL is an APRA regulated entity. The Company and the other entities which were party to the deed executed a deed of revocation on 30 March 2017 and lodged that deed with ASIC on the same day. Subject to all relevant conditions being satisfied these companies will be released from the Deed Of Cross Guarantee on 30 September 2017. The table below presents the prior financial year information only.

**Consolidated income statements of the Closed Group for the financial year ended 31 March 2016:**

	2016 \$m
Interest and similar income	4,142
Interest expense and similar charges	(2,770)
Net interest income	1,372
Fee and commission income	559
Net trading income	1,370
Share of net profits of associates and joint ventures accounted for using the equity method	–
Other operating income and charges	2,979
Net operating income	6,280
Employment expenses	(1,039)
Brokerage, commission and trading-related expenses	(439)
Occupancy expenses	(84)
Non-salary technology expenses	(133)
Other operating expenses	(1,208)
Total operating expenses	(2,903)
Operating profit before income tax	3,377
Income tax expense	(243)
<b>Profit from continuing operations after income tax</b>	<b>3,134</b>
<b>Profit from discontinued operations (net of income tax)</b>	<b>641</b>
<b>Profit from continuing and discontinued operations attributable to equity holders of the Closed Group</b>	<b>3,775</b>
<b>Summary of movements in consolidated retained earnings</b>	
Retained earnings at the beginning of the financial year	1,872
Profit attributable to equity holders of the Closed Group	3,775
Dividends paid or provided for	(3,570)
<b>Retained earnings at the end of the financial year</b>	<b>2,077</b>

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**NOTE 17****Deed of cross guarantee continued****Consolidated statement of financial position of the Closed Group as at 31 March 2016:**

	2016 \$m
<b>Assets</b>	
Receivables from financial institutions	28,296
Trading portfolio assets	18,156
Derivative assets	15,137
Investment securities available for sale	8,494
Other assets	4,340
Loan assets held at amortised cost	58,569
Other financial assets at fair value through profit or loss	1,005
Due from related body corporate entities	32,875
Due from subsidiaries	1,032
Property, plant and equipment	374
Interests in associates and joint ventures accounted for using the equity method	73
Intangible assets	142
Investments in subsidiaries	3,750
Deferred tax assets	267
Assets of disposals group classified as held for sale	85
<b>Total assets</b>	<b>172,595</b>
<b>Liabilities</b>	
Trading portfolio liabilities	4,824
Derivative liabilities	13,474
Deposits	50,952
Other liabilities	4,562
Payables to financial institutions	17,468
Other financial liabilities at fair value through profit or loss	4,062
Due to related body corporate entities	5,909
Due to subsidiaries	14,960
Debt issued at amortised cost	40,242
Provisions	57
Deferred tax liabilities	139
<b>Total liabilities excluding loan capital</b>	<b>156,649</b>
<b>Loan capital</b>	
Loan capital	4,078
<b>Total loan capital</b>	<b>4,078</b>
<b>Total liabilities</b>	<b>160,727</b>
<b>Net assets</b>	<b>11,868</b>
<b>Equity</b>	
Contributed equity	9,808
Reserves	(17)
Retained earnings	2,077
<b>Total equity</b>	<b>11,868</b>

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	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 18</b>				
<b>Deferred tax assets/(liabilities)</b>				
The balance comprises temporary differences attributable to:				
Tax losses	288	315	4	11
Fixed assets	93	78	93	76
Intangible assets	6	7	4	5
Other assets and liabilities	534	460	324	266
Investments	51	75	70	79
Leasing and financial instruments	5	12	–	–
Set-off of deferred tax liabilities	(815)	(778)	(176)	(158)
<b>Total deferred tax assets</b>	<b>162</b>	<b>169</b>	<b>319</b>	<b>279</b>
Leasing and financial instruments	(1,025)	(908)	(166)	(158)
Other assets and liabilities	(216)	(209)	(130)	(138)
Fixed assets	(18)	(1)	–	–
Intangible assets	(4)	(4)	–	–
Investments	(36)	(62)	(11)	–
Set-off of deferred tax assets	815	778	176	158
<b>Total deferred tax liabilities</b>	<b>(484)</b>	<b>(406)</b>	<b>(131)</b>	<b>(138)</b>
<b>Net deferred tax (liabilities)/assets</b>	<b>(322)</b>	<b>(237)</b>	<b>188</b>	<b>141</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 \$60 million (2016: \$64 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 \$1 million (2016: \$4 million) that will expire in 2 – 5 years and \$25 million (2016: \$128 million) that will expire in 10 – 20 years. \$271 million (2016: \$261 million) of gross losses do not expire and can be carried forward indefinitely.

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	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 19</b>				
<b>Trading portfolio liabilities</b>				
Listed equity securities	4,321	4,231	4,541	4,261
Foreign government securities	530	492	530	492
Corporate securities	71	71	72	71
<b>Total trading portfolio liabilities</b>	<b>4,922</b>	<b>4,794</b>	<b>5,143</b>	<b>4,824</b>

**NOTE 20****Deposits**

Interest bearing deposits				
Call	38,539	32,748	38,509	32,709
Term	7,144	8,860	7,144	8,847
Client monies, segregated fund and margin money held	10,178	9,082	8,887	7,930
Non-interest bearing call deposits	1,821	1,538	1,758	1,466
<b>Total deposits</b>	<b>57,682</b>	<b>52,228</b>	<b>56,298</b>	<b>50,952</b>

**NOTE 21****Other Liabilities**

Due to brokers and customers	3,440	2,148	3,321	2,043
Creditors	2,849	1,929	1,595	1,144
Accrued charges, income received in advance and other liabilities	1,162	1,158	542	624
Aircraft and rail maintenance liabilities	782	772	657	669
Life investment linked contracts and other unitholder liabilities	714	771	–	–
Liabilities of disposal groups classified as held for sale	217	–	–	–
Income tax payable	211	343	101	138
<b>Total other liabilities</b>	<b>9,375</b>	<b>7,121</b>	<b>6,216</b>	<b>4,618</b>

**NOTE 22****Payables to financial institutions**

Borrowings from banks	7,357	11,683	4,333	8,598
Cash collateral on securities lent and repurchase agreements	6,879	8,872	6,879	8,870
<b>Total payables to financial institutions</b>	<b>14,236</b>	<b>20,555</b>	<b>11,212</b>	<b>17,468</b>

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	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 23</b>				
<b>Debt issued at amortised cost</b>				
Debt issued at amortised cost <sup>(1)</sup>	43,137	55,142	29,691	40,242
<b>Total debt issued at amortised cost</b>	<b>43,137</b>	<b>55,142</b>	<b>29,691</b>	<b>40,242</b>

(1) Included within this balance are amounts payable to SPE note holders and debt holders of \$13,430 million (2016: \$14,939 million).

The Consolidated Entity and the Company have 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 dollar	18,379	25,278	17,032	23,849
Australian dollar	14,877	15,887	3,148	2,972
Euro	5,650	7,295	5,282	6,742
Swiss franc	1,912	2,013	1,912	2,013
Great British pound	767	3,055	767	3,055
Japanese yen	715	724	715	724
Hong Kong dollar	222	224	222	224
Yuan renminbi	218	230	218	230
Norwegian krone	153	164	153	164
Canadian dollar	125	129	123	126
Korean won	107	104	107	104
Others	12	39	12	39
<b>Total</b>	<b>43,137</b>	<b>55,142</b>	<b>29,691</b>	<b>40,242</b>

The Consolidated Entity's and the Company's primary sources for domestic and international debt funding are their multi-currency, multi-jurisdictional Debt Instrument Program and domestic NCD issuance.

**NOTE 24**

**Other financial liabilities at fair value through profit or loss**

Structured notes <sup>(1),(2)</sup>	1,934	2,307	3,921	4,062
<b>Total other financial liabilities at fair value through profit or loss</b>	<b>1,934</b>	<b>2,307</b>	<b>3,921</b>	<b>4,062</b>

(1) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates or other assets.

(2) Includes cumulative fair value losses of \$12 million (2016: \$49 million gains) due to changes in the Consolidated Entity's credit risk.

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through profit or loss for the Consolidated Entity is \$2,684 million (2016: \$2,767 million) and for the Company is \$4,672 million (2016: \$4,521 million)

**Reconciliation of other financial liabilities at fair value through profit or loss by major currency**

(In Australian dollar equivalent):

United States dollar	1,813	2,113	1,813	2,113
Australian dollar	56	60	2,061	1,856
South African rand	42	56	42	56
Euro	19	50	1	14
Others	4	28	4	23
<b>Total</b>	<b>1,934</b>	<b>2,307</b>	<b>3,921</b>	<b>4,062</b>

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## NOTE 25

### Capital management strategy

The Consolidated Entity's and the Company's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The Consolidated Entity's capital management objectives are to:

- continue to support the Consolidated Entity's credit rating
- ensure sufficient capital resource to support the Consolidated Entity's business and operational requirements
- maintain sufficient capital to exceed externally imposed capital requirements, and
- safeguard the Consolidated Entity's ability to continue as a going concern.

The Consolidated Entity's capital management strategy uses both internal and external measures of capital. Internally, the Consolidated Entity has developed an Economic Capital Adequacy Model (ECAM) that is used to quantify the Company's aggregate level of risk. The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of the Company's risk profile. The economic capital model is used to support business decision-making and has three main applications:

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

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. APRA requires the Consolidated Entity to have an Internal Capital Adequacy Assessment Process (ICAAP) that is Board approved and which meets a range of minimum requirements. The Consolidated Entity reports to APRA under Basel III capital requirements and is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book. The capital ratios disclosed in this report are relevant for comparisons with banks regulated by APRA.

Regulatory capital requirements are measured for the Company and certain subsidiaries which meet the definition of Extended Licensed Entities (Level 1 reporting), and for the Banking Group (Level 2 reporting). Level 2 consists of the Company, its subsidiaries and its immediate parent less certain subsidiaries of the Company 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.

Under Basel III rules, APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of tier 1 capital to risk weighted assets (RWA) of 8.5% including 2.5% of capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition APRA may impose ADI-specific minimum capital ratios which may be higher than these levels.

The Consolidated Entity's Common Equity Tier 1 capital consists of share capital, retained earnings, and certain reserves, net of deductions. Additional Tier 1 capital consists of hybrid instruments. The hybrid instruments include Macquarie Additional Capital Securities, Macquarie Income Securities, Macquarie Income Preferred Securities (redeemed in June 2015), Exchangeable Capital Securities, and Macquarie Bank Capital Notes. Information on details of capital instruments is available in the Regulatory Disclosures section of the Macquarie public website. Deductions from Common Equity Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, APRA's Basel III rules require that equity investments and investments in subsidiaries that are insurance entities, fund management entities, special purpose securitisation entities and non-financial entities are fully deducted from Common Equity Tier 1 capital. The Consolidated Entity's Tier 2 capital includes term subordinated debt, certain reserves and applicable deductions.

The Consolidated Entity and the Company have complied with all internal and external capital management requirements throughout the financial year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 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 with conditional repayment obligations are discussed below.

##### Macquarie Bank Capital Notes (BCN)

On 8 October 2014, 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 MGL 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 MGL or 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, BCN Holders will receive up to approximately \$101 worth of MGL ordinary shares per BCN held. The total number of ordinary shares that would be issued if all BCN were exchanged at 31 March 2017 would be 4,923,360 (31 March 2016: 6,496,151). 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, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

##### Exchangeable Capital Securities (ECS)

On 26 March 2012, the Company, 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, the Company and MGL 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 MGL 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 the Company and MGL), where the Company's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL'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 MGL ordinary shares that would be issued if all ECS were exchanged at 31 March 2017 would be 3,904,622 (31 March 2016: 5,134,261). 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 2017, the remaining principal liability related to the ECS was \$US250 million (31 March 2016: \$US250 million).

Subsequent to 31 March 2017, MBL announced that it intends to buy back \$US250 million ECS in June 2017.

##### Macquarie Additional Capital Securities (MACS)

On 8 March 2017, the Company, acting through its London Branch, issued \$US750 million of MACS.

The MACS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 6.125% per annum, payable semi-annually in arrears, with the rate to be reset on the tenth anniversary (and each fifth anniversary thereafter), if the MACS remain outstanding after this time. If interest is not paid on the MACS, the Company will be restricted from paying dividends or returning capital on its ordinary shares until the next interest payment date.

The MACS may be exchanged on an acquisition event (where a person acquires control of the Company or MGL), where the Company'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 MGL ordinary shares will be issued at a 1% 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 MACS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if all MACS were exchanged at 31 March 2017 would be 11,189,774. The maximum number of ordinary shares that can be issued on an exchange is 57,498,886.

The MACS 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 MACS.

As at 31 March 2017, the remaining principal liability related to the MACS was \$US750 million.



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	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 26</b>				
<b>Loan capital continued</b>				
<b>Maturity of loan capital:</b>				
Instruments upon which the Consolidated Entity has committed to repay the principal sum to the lenders are as follows:				
Less than 12 months	83	88	83	88
30 May 2019	1	3	1	3
21 September 2020	689	754	689	754
7 April 2021	1,149	1,456	1,149	1,456
10 June 2025	978	1,037	978	1,037
Instruments with a conditional repayment obligation:				
BCN	430	430	430	430
ECS	327	326	327	326
MACS	980	–	980	–
	4,637	4,094	4,637	4,094
Less directly attributable issue cost	(22)	(16)	(22)	(16)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,615</b>	<b>4,078</b>	<b>4,615</b>	<b>4,078</b>
Reconciliation of loan capital by major currency: (In Australian dollar equivalent):				
United States dollars	3,498	2,889	3,498	2,889
Euro	709	775	709	775
Australian dollars	430	430	430	430
	4,637	4,094	4,637	4,094
Less directly attributable issue cost	(22)	(16)	(22)	(16)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,615</b>	<b>4,078</b>	<b>4,615</b>	<b>4,078</b>

(1) The balance includes fair value hedge accounting adjustments.

The Consolidated Entity and the Company have not had any defaults of principal, interest or other breaches with respect to their loan capital during the financial years reported.

In accordance with APRA guidelines, the Consolidated Entity includes the BCN, ECS and MACS as Additional Tier 1 capital and the applicable portion of the remaining loan capital as Tier 2 capital.

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**NOTE 27**

**Contributed equity**

	CONSOLIDATED AND COMPANY			
	2017		2016	
	Number of shares	Number of shares	2017 \$m	2016 \$m
<b>Ordinary share capital<sup>(1)</sup></b>				
Opening balance of fully paid ordinary shares	<b>589,276,303</b>	552,066,999	<b>9,328</b>	8,528
Issue of shares to Macquarie B.H. Pty Limited on 16 December 2015 at \$21.50 per share	–	27,906,978	–	600
Issue of shares to Macquarie B.H. Pty Limited on 23 March 2016 at \$21.50 per share	–	9,302,326	–	200
<b>Closing balance of fully paid ordinary shares</b>	<b>589,276,303</b>	589,276,303	<b>9,328</b>	9,328

(1) Ordinary shares have no par value.

	CONSOLIDATED		COMPANY	
	2017		2016	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>Equity contribution from ultimate parent entity</b>				
Balance at the beginning of the financial year	<b>163</b>	163	<b>89</b>	79
Additional paid up capital	<b>29</b>	–	<b>4</b>	10
<b>Balance at the end of the financial year</b>	<b>192</b>	163	<b>93</b>	89

MEREP awards are primarily settled in MGL ordinary shares. Where MEREP Awards are issued by MGL to employees of the Consolidated Entity, and MGL is not subsequently reimbursed by the Consolidated Entity or the Company, the Consolidated Entity or the Company recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding the terms and conditions of MEREP refer to Note 32 – Employee equity participation.

	CONSOLIDATED		COMPANY	
	2017		2016	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>Macquarie Income Securities</b>				
4,000,000 Macquarie Income Securities of \$100 each	<b>400</b>	400	<b>400</b>	400
Less transaction costs for original placement	<b>(9)</b>	(9)	<b>(9)</b>	(9)
<b>Total Macquarie Income Securities</b>	<b>391</b>	391	<b>391</b>	391
<b>Contributed equity</b>	<b>9,911</b>	9,882	<b>9,812</b>	9,808

The MIS listed for trading on the ASX on 19 October 1999 and became redeemable (in whole or in part) at the Company's discretion on 19 November 2004. They are classified as equity in accordance with AASB 132 Financial Instruments: Presentation. Interest is paid quarterly at a floating rate of Bank Bill Swap Rate (BBSW) plus 1.7% p.a. Payment of interest to holders is subject to certain conditions, including the profitability of the Company. They are a perpetual instrument with no conversion rights.

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	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$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	492	619	(18)	(23)
Exchange differences on translation of foreign operations, net of hedge and tax	(129)	(127)	3	5
<b>Balance at the end of the financial year</b>	<b>363</b>	<b>492</b>	<b>(15)</b>	<b>(18)</b>
<b>Available for sale reserve</b>				
Balance at the beginning of the financial year	112	71	58	61
Revaluation movement for the financial year, net of tax	11	38	36	(23)
Transfer to income statement on impairment, net of tax	22	23	20	15
Transfer to income statement on realisation, net of tax	(29)	(20)	(26)	5
<b>Balance at the end of the financial year</b>	<b>116</b>	<b>112</b>	<b>88</b>	<b>58</b>
<b>Cash flow hedging reserve</b>				
Balance at the beginning of the financial year	(122)	(88)	(16)	(2)
Revaluation movement for the financial year, net of tax	16	(34)	(12)	(14)
<b>Balance at the end of the financial year</b>	<b>(106)</b>	<b>(122)</b>	<b>(28)</b>	<b>(16)</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	1	1	–	–
Share of other comprehensive expense of associates and joint ventures during the year, net of tax	(1)	–	–	–
<b>Balance at the end of the financial year</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>
<b>Total reserves at the end of the financial year</b>	<b>373</b>	<b>483</b>	<b>45</b>	<b>24</b>
<b>Retained earnings</b>				
Balance at the beginning of the financial year	2,333	1,831	1,344	1,236
Profit attributable to equity holders of MBL	1,236	2,106	648	3,659
Distributions paid on Macquarie Income Securities (Note 5)	(15)	(16)	–	–
Distributions paid or provided for on convertible debentures (Note 5)	–	–	–	(1)
Dividends paid on ordinary share capital (Note 5)	(1,226)	(1,580)	(1,226)	(3,570)
Premium on redemption of convertible debentures	–	–	–	20
Loss on change in non-controlling ownership interest	(2)	(8)	–	–
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	(30)	–	(30)	–
<b>Balance at the end of the financial year</b>	<b>2,296</b>	<b>2,333</b>	<b>736</b>	<b>1,344</b>

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	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 28</b>				
<b>Reserves, retained earnings and non-controlling interests continued</b>				
<b>Non-controlling interests<sup>(1)</sup></b>				
Share capital and partnership interests	56	46	–	–
Accumulated losses	(48)	(34)	–	–
<b>Total non-controlling interests</b>	<b>8</b>	<b>12</b>	<b>–</b>	<b>–</b>

(1) NCI 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 Entity.

**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 are reflected in the related items in the statements of financial position as follows:

Receivables from financial institutions <sup>(1)</sup>	7,606	7,573	6,162	5,168
Trading portfolio assets <sup>(2)</sup>	1,061	247	474	247
Debt investment securities available for sale <sup>(3)</sup>	324	1,491	324	1,491
Loan assets held at amortised cost <sup>(4)</sup>	1,173	3,399	1,162	1,795
<b>Cash and cash equivalents at the end of the financial year<sup>(5)</sup></b>	<b>10,164</b>	<b>12,710</b>	<b>8,122</b>	<b>8,701</b>

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.

(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.

(3) Includes short-term debt securities.

(4) Includes margin balances at call.

(5) Cash and cash equivalents include \$5,011 million (31 March 2016: \$5,480 million) in the Consolidated Entity and \$3,656 million (31 March 2016: \$2,978 million) in the Company in escrow accounts which are restricted for use or held by collateralised securitisation vehicles in segregated deposit fund.

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	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 29</b>				
<b>Notes to the statements of cash flows continued</b>				
<b>Reconciliation of profit after income tax to net cash flows (used in)/from operating activities</b>				
Profit after income tax	1,221	2,095	648	3,660
Adjustments to profit after income tax:				
Depreciation and amortisation	775	731	61	63
Fair value changes on financial assets and liabilities at fair value through profit or loss and transfer of available for sale reserve to income statement on realisation of investment	(733)	349	(972)	1,009
In specie distribution received	–	–	–	(2,121)
Provision and impairment charge on financial and non-financial assets	337	617	418	463
Interest on available for sale debt securities	–	(40)	–	–
Profit from discontinued operations	–	(1,040)	–	(641)
Net gains on sale of investment securities available for sale, associates and joint ventures and assets under operating lease	(526)	(32)	(131)	21
Share of net losses/(profits) of associates and joint ventures accounted for using the equity method	19	(22)	–	–
Capitalisation of development cost of intangible assets	(10)	(69)	(10)	(69)
Changes in assets and liabilities:				
Change in carrying values of associates and joint ventures due to dividends received	9	12	–	–
Change in fees and non-interest income receivable	13	27	12	21
Change in fees and commissions payable	(36)	19	(29)	16
Change in tax balances	333	116	(25)	164
Change in provisions for employee entitlements	(2)	(4)	(3)	(4)
Change in assets under operating lease, net of depreciation and foreign exchange movements	(301)	(694)	(245)	–
Change in loan assets	318	(1,080)	4,310	(9,279)
Change in margin money placed	(1,113)	295	(213)	570
Change in debtors, prepayments, accrued charges and creditors	430	245	(14)	(65)
Change in net trading portfolio assets and liabilities and net derivative financial instruments	3,134	(4,689)	4,014	(5,234)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	(9,669)	15,124	(8,527)	15,626
<b>Net cash flows (used in)/from operating activities</b>	<b>(5,801)</b>	<b>11,960</b>	<b>(706)</b>	<b>4,200</b>

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**NOTE 30**

**Related party information**

**Ultimate and immediate parent entities**

The Company's ultimate parent entity is MGL. The Company's immediate parent entity is Macquarie B.H. Pty Limited. Both MGL and Macquarie B.H. Pty Limited are incorporated in Australia. MGL produces financial statements that are available for public use.

Transactions between the Consolidated Entity and the ultimate and immediate parent entities principally arise from the provision and repayment of loans and the provision of management and administration services.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of this agreement are set out in Note 1(vii) – Taxation. Amount receivable from MGL includes amount receivable by the Company under the tax funding agreement of the tax consolidated group.

Balances outstanding with MGL are included in Due from related party corporate entities and Due to related body corporate entities, as appropriate, in the statement of financial position. The following balances with the ultimate parent entity were outstanding as at the financial year end:

	CONSOLIDATED		COMPANY	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Amounts receivable <sup>(1)</sup>	184,052	122,834	128,370	63,815

(1) As described in Note 1(xxii) – Performance based remuneration, the amounts receivable by the Company includes \$100,929 thousand (2016: \$89,189 thousand) for amounts paid in advance for MEREP awards offered to its employees and yet to be recognised as a share-based payment expense.

**Subsidiaries**

Transactions between the Company and its subsidiaries principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees. 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 subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The Company enters into legal arrangements with certain subsidiaries and their customers whereby security deposits and maintenance claims are defeased to the Company. This removes the legal requirement for the subsidiary to reimburse the external counterpart and that liability sits with the Company. As of 31 March 2017 these defeased balances were \$572,769 thousand (2016: \$583,701 thousand) and \$122,129 thousand (2016: \$129,523 thousand) for maintenance and security deposits respectively.

The Company has entered into a repurchase transaction and pledged collateral to its subsidiary Macquarie Bank International Ltd for managing regulatory exposures in relation to over-the-counter derivatives. As of 31 March 2017, the collateral placed was \$381,410 thousand (2016: \$nil).

A list of material subsidiaries is set out in Note 16 – Investments in subsidiaries.

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### Related party information continued

The following income/(expense) resulted from transactions with subsidiaries during the financial year:

	CONSOLIDATED		COMPANY	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Interest income	–	–	<b>682,693</b>	568,853
Interest expense	–	–	<b>(498,522)</b>	(433,081)
Fee and commission income	–	–	<b>45,845</b>	184,349
Other operating income	–	–	<b>83,289</b>	124,584
Dividends and distributions	–	–	<b>733,541</b>	2,919,903
Management fees, group service charges and cost recoveries	–	–	<b>291,805</b>	356,355
Other (expense)/income	–	–	<b>(4,825)</b>	154

The following balances with subsidiaries were outstanding as at the end of the financial year:

Amounts receivable	–	–	<b>31,071,245</b>	30,347,589
Amounts payable	–	–	<b>(17,479,969)</b>	(15,311,600)

### Other related body corporate entities

Transactions between the Consolidated Entity and other related body corporate entities under common control principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, the provision of management and administration services, facilities and accommodation and the provision of guarantees.

Balances arising from lending and borrowing activities between the Consolidated Entity and other related body corporate entities are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The following income/(expense) resulted from transactions with other related body corporate entities during the financial year:

	CONSOLIDATED		COMPANY	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Interest income	<b>3,396</b>	34,687	<b>2,019</b>	–
Interest expense	<b>(232,263)</b>	(291,803)	<b>(181,643)</b>	(228,319)
Occupancy income	<b>21,169</b>	20,720	<b>21,169</b>	20,720
Fee and commission expense	<b>(220,674)</b>	(120,118)	<b>(196,975)</b>	(158,665)
Other operating expenses	<b>(1,312,102)</b>	(1,247,708)	<b>(1,084,432)</b>	(1,034,240)
Other (expense)/income	<b>(471)</b>	1,318	<b>(1,284)</b>	1,390

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

Amounts receivable	<b>1,548,724</b>	1,487,116	<b>1,406,923</b>	968,185
Amounts payable	<b>(7,367,119)</b>	(7,555,352)	<b>(5,959,434)</b>	(5,909,630)

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	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000

**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 statements.

During the financial year, the following amounts of income/(expense) resulted from transactions with associates and joint ventures:

Interest income	<b>12,379</b>	124,953	<b>12,379</b>	124,953
Fee and commission expense	<b>(38,539)</b>	(35,025)	<b>(37,964)</b>	(50,756)
Brokerage and commission expense	<b>(4,812)</b>	(9,903)	<b>(3,937)</b>	(9,689)
Dividends and distributions <sup>(1)</sup>	<b>9,000</b>	12,020	–	–

(1) Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not included as income but are recorded as a reduction from 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 14 – Interests in associates and joint ventures accounted for using the equity method):

Amounts receivable	<b>242,262</b>	454,881	<b>228,272</b>	454,881
Amounts payable	<b>(3,488)</b>	(3,613)	<b>(3,488)</b>	(3,613)

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

For persons



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## NOTE 31

### Key Management Personnel disclosure

#### Key Management Personnel

The following persons were Directors of the Bank during the financial years ended 31 March 2017 and 31 March 2016, unless indicated:

#### *Executive Voting Directors<sup>(1)</sup>*

N.W. Moore	Macquarie Managing Director and CEO
M.J. Reemst	Macquarie Bank Managing Director and CEO

#### *Non-Executive Directors*

P.H. Warne <sup>(2)</sup>	Chairman
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	

#### *Former Non-Executive Director*

H.K. McCann AM	(retired effective 31 March 2016)
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In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the past two financial years ended 31 March 2017 and 31 March 2016, unless otherwise indicated.

#### *Current Executives<sup>(1)</sup>*

S.D. Allen	CRO, Head of RMG
B.A. Brazil	Co-Head of CAF
A.J. Downe	Head of CGM
G.A. Farrell	Co-Head of CAF
M. McLaughlin	Country Head, United States of America
N. Sorbara	COO, Head of COG
P.C. Upfold	CFO, Head of FMG
G.C. Ward	Macquarie Group Deputy Managing Director and Head of BFS
S. Wikramanayake	Head of MAM

#### *Former Executive*

S. Vrcelj	Former Head of MSG (ceased to be a member of the Executive Committee on 29 November 2016)
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The remuneration arrangements for all of the persons listed above are described on pages 29 to 36 of the Remuneration Report, contained in the Directors' Report.

(1) The Executive Voting Directors and all current Executives are members of the Company's Executive Committee as at 5 May 2017.

(2) P.H. Warne commenced as Chairman of the MBL Board effective 1 April 2016.

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**NOTE 31**

**Key Management Personnel disclosure continued**

**Key Management Personnel remuneration**

The following table details the aggregate remuneration for KMP:

	Short-term employee benefits			Total 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 earnings on restricted profit share <sup>(2)</sup>	Equity awards including shares <sup>(3)</sup>	PSUs <sup>(4)</sup>	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Executive Remuneration</b>								
<b>2017</b>	<b>6,167,275</b>	<b>25,634,799</b>	<b>–</b>	<b>31,802,074</b>	<b>6,938,188</b>	<b>27,847,656</b>	<b>15,822,874</b>	<b>82,410,792</b>
2016	6,272,793	25,888,470	–	32,161,263	5,098,692	21,434,595	14,127,550	72,822,100
<b>Non-Executive Remuneration</b>								
<b>2017</b>	<b>757,500</b>	<b>–</b>	<b>3,000</b>	<b>760,500</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>760,500</b>
2016	815,000	–	4,500	819,500	–	–	–	819,500

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.

(2) The amount of retained profit share held via the Post-2009 DPS plan including earnings on notional investments from retained profit share in prior financial years.

(3) The current year amortisation for retained profit share calculated as described in Note 1(xxii) – Performance based remuneration.

(4) The current year amortisation for PSUs calculated as described in Note 1(xxii) – Performance based remuneration. Adjustments were made during the current and prior years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

**Loans to KMP 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	Interest Charged	Write-downs	Closing balance at 31 March <sup>(1)</sup>
	\$'000	\$'000	\$'000	\$'000
Total for key management personnel and their related parties				
<b>2017</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
2016	559	9	–	–

(1) Number of persons included in the aggregate at 31 March 2017: Nil (31 March 2016: 1).

Loans and other financial instrument transactions were made by the Consolidated Entity in the ordinary course of business with related parties.

**Other transactions with Key Management Personnel and their related parties**

Certain Key Management Personnel and their related parties have acquired investments in a number of products from subsidiaries within the Consolidated Entity. These products typically involve the issuance of investment units and have been financed with limited recourse loans. Some are accounted for as fee and commission income when acting on behalf of investors. This fee represents the service performed by the Consolidated Entity for transferring interest received from investors in exchange for their investment unit returns. The gross receipts by the Consolidated Entity were \$2,700 thousand (2016: \$1,100 thousand). Others are subject to swap agreements and are accounted for as derivatives by the Consolidated Entity.

All transactions with Key Management Personnel (including their related parties) were conducted on an arm's length basis in the ordinary course of business and under standard terms and conditions for other customers and employees. From an accounting perspective, amounts recognised by the Consolidated Entity in respect of these transactions are recognised net in either trading income or fee and commission income and have been disclosed below.

	Consolidated 2017	Consolidated 2016
	\$'000	\$'000
Aggregated amounts recognised by the Consolidated Entity		
Trading income	<b>838</b>	800
Fee and commission income	<b>397</b>	174

Contributions in respect of these products relate to the following Key Management Personnel: S. Wikramanayake.

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## NOTE 32

### Employee equity participation

#### MEREP

MGL continues to operate the MEREP in conjunction with other remuneration arrangements.

During the financial year, MGL made changes to align the buying and selling of Macquarie shares in relation to the MEREP. MGL may elect to implement similar arrangement in future periods.

#### Award Types under the MEREP

##### *Restricted Share Units (RSUs)*

A RSU is a beneficial interest in a MGL ordinary 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 of the share. The participant also has the right to request the release of the share from the Trust, subject to the vesting and forfeiture provisions of the MEREP.

##### *Deferred Share Units (DSUs)*

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or direct the Trustee to acquire shares on-market, or via a share acquisition arrangement for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on MGL ordinary shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of MGL 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 with respect to any underlying MGL ordinary 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, and to exercise the voting rights of, the Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

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**NOTE 32**

**Employee equity participation continued**

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

	Number of RSU awards	
	2017	2016
RSUs on issue at the beginning of the financial year	7,184,674	8,565,941
Granted during the financial year	1,970,285	1,775,624
Forfeited during the financial year	(135,300)	(200,366)
Vested RSUs withdrawn or sold from the MEREP during the financial year	(2,293,701)	(2,693,958)
Transfers from related body corporate entities	(106,303)	(262,567)
RSUs on issue at the end of the financial year	6,619,655	7,184,674
RSUs vested and not withdrawn from the MEREP at the end of the financial year	2,637	1,391

The weighted average fair value of the RSU awards granted during the financial year was \$72.74 (2016: \$81.55).

	Number of DSU awards	
	2017	2016
DSUs on issue at the beginning of the financial year	1,290,490	1,224,566
Granted during the financial year	464,300	380,864
Forfeited during the financial year	(767)	(16,025)
Exercised during the financial year	(468,409)	(310,427)
Transfers (to)/ from related body corporate entities	(4,438)	11,512
DSUs on issue at the end of the financial year	1,281,176	1,290,490
DSUs exercisable at the end of the financial year	153,422	206,767

The weighted average fair value of the DSU awards granted during the financial year was \$72.86 (2016: \$81.60).

	Number of PSU awards	
	2017	2016
PSUs on issue at the beginning of the financial year	482,431	511,060
Granted during the financial year	149,077	117,105
Exercised during the financial year	(85,912)	(142,792)
Transfers from related body corporate entities	–	26,369
Expired during the financial year	(6,420)	(29,311)
PSUs on issue at the end of the financial year	539,176	482,431
PSUs exercisable at the end of the financial year	70,211	–

The weighted average fair value of the PSU awards granted during the financial year was \$65.53 (2016: \$66.77).

	Number of PSU awards	
	2017	2016
Restricted shares on issue at the beginning of the financial year	46,183	5,518
Granted during the financial year	24,032	68,254
Released during the financial year	(37,730)	(36,295)
Transfers from related body corporate entities	–	8,706
Restricted shares on issue at the end of the financial year	32,485	46,183

The weighted average fair value of the Restricted Shares granted during the financial year was \$71.36 (2016: \$79.96).

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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 from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance.

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current year in respect of 2016. The fair value of each of these grants is estimated using Macquarie'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: 1.84% per annum
- expected vesting dates of PSUs: 1 July 2019 and 1 July 2020
- dividend yield: 4.76% per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2017 will be granted during FY2018, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2016. The expense is estimated using the price of MGL ordinary shares as at 31 March 2017 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.19% per annum, expected vesting dates of PSUs of 1 July 2020 and 1 July 2021, and a dividend yield of 4.94% 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 validation for recognising the expense over the remaining vesting period.

Macquarie 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 within MGL's consolidated accounts.

For the financial year ended 31 March 2017, compensation expense relating to the MEREP totalled \$162,719 thousand (2016: \$129,391 thousand).

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)
- 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 MBL and MGL Executive Committees who are eligible for PSUs
- 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).

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**NOTE 32**

**Employee equity participation continued**

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>
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

(1) Vesting will occur during an eligible staff trading window.

(2) 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.

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

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## NOTE 32

### Employee equity participation continued

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 2016 retention, the allocation price was the weighted average price of the Shares acquired for the 2016 Purchase Period, which was 17 May 2016 to 17 June 2016 inclusive. That price was calculated to be \$71.55 (2015 retention: \$80.68).

### PSUs

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 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 market practice. No change has been made to the hurdles for this financial year.

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 (three to four years) compared with a reference group of global financial institutions. A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.	The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG	The reference group comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., 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).

#### Performance hurdle 2

Hurdle	Reference Group	
	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 (three to four years).	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9% and 100% at EPS CAGR of 13%. For example, if EPS CAGR were 11%, 75% of the awards would become exercisable.

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

### Other arrangements

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

Compensation expense relating to these awards for the financial year ended 31 March 2017 was \$193 thousand (2016: \$295 thousand).

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**NOTE 32**

**Employee equity participation continued**

**Employee Share Plan**

MGL 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 MGL or a subsidiary of MGL. 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 2016. A total of 507 (2016: 602) staff participated in this offer. On 1 December 2016, the participants were each allocated 11 (2016: 12) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$84.13 (2016: \$82.13), a total of 5,577 (2016: 7,224) 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.

For the financial year ended 31 March 2017, compensation expense relating to the ESP totalled \$467 thousand (2016: \$592 thousand).

**Historical Share and Option Plans**

Shares are no longer being issued under the Macquarie Group Staff Share Acquisition Plan or the Macquarie Group Non-Executive Director Share Acquisition plan. However employees and Non-Executive Directors still hold shares issued in previous years.

Options over unissued MGL fully paid shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

**Other plans**

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

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	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>NOTE 33</b>				
<b>Contingent liabilities and commitments</b>				
The following contingent liabilities and commitments exclude derivatives.				
<b>Contingent liabilities exist in respect of:</b>				
Letters of credit	682	708	681	701
Performance related contingents	305	315	320	315
Guarantees <sup>(1)</sup>	50	150	1,226	564
Indemnities	44	58	44	58
<b>Total contingent liabilities<sup>(2),(3)</sup></b>	<b>1,081</b>	<b>1,231</b>	<b>2,271</b>	<b>1,638</b>
<b>Commitments exist in respect of:</b>				
Undrawn credit facilities and securities underwriting <sup>(4)</sup>	4,738	4,806	3,777	4,046
Forward asset purchases	816	761	719	719
<b>Total commitments</b>	<b>5,554</b>	<b>5,567</b>	<b>4,496</b>	<b>4,765</b>
<b>Total contingent liabilities and commitments</b>	<b>6,635</b>	<b>6,798</b>	<b>6,767</b>	<b>6,403</b>

- (1) The Company guarantees the performance obligation of certain subsidiaries in relation to their external obligations.  
 (2) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's and the Company'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 and the Company is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's and the Company's business, financial condition or performance.  
 (3) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.  
 (4) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity and the Company. 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	8	6	-	-
Later than one year and not later than five years	18	11	-	-
Later than five years	3	4	-	-
<b>Total operating lease commitments</b>	<b>29</b>	<b>21</b>	<b>-</b>	<b>-</b>

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**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.

**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, including mortgages, finance leases, credit card receivables, of the Consolidated Entity or of its clients.

Macquarie 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.

**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.

SEs are consolidated when they meet the criteria described in Note 1 (ii) - Principles of consolidation.

**Interests held in unconsolidated structured entities**

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.

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

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### 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 2017		
<b>Carrying value of assets</b>		
Trading portfolio assets	488	364
Derivative assets	33	–
Investment securities available for sale <sup>(1)</sup>	1,068	–
Loan assets held at amortised cost	504	381
<b>Total carrying value of assets<sup>(2)</sup></b>	<b>2,093</b>	<b>745</b>
<b>Maximum exposure to loss<sup>(3)</sup></b>		
Debt, equity and derivatives held	2,093	745
Undrawn commitments	3	37
<b>Total maximum exposure to loss</b>	<b>2,096</b>	<b>782</b>
CONSOLIDATED 2016		
<b>Carrying value of assets</b>		
Trading portfolio assets	306	795
Derivative assets	36	–
Investment securities available for sale <sup>(1)</sup>	1,404	83
Loan assets held at amortised cost	341	312
<b>Total carrying value of assets<sup>(2)</sup></b>	<b>2,087</b>	<b>1,190</b>
<b>Maximum exposure to loss<sup>(3)</sup></b>		
Debt, equity and derivatives held	2,090	1,190
Undrawn commitments	448	–
<b>Total maximum exposure to loss</b>	<b>2,538</b>	<b>1,190</b>

(1) Securitisations includes \$702 million (2016: \$924 million) of investments that are managed by the Consolidated Entity under the liquid assets holding policy described in Note 37.2 – Liquidity risk.

(2) Total carrying value of assets includes \$237 million (2016: \$290 million) in subordinated interests, included in asset backed financing activities. The carrying value also represents the maximum exposure to loss.

(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments. The amounts for commitments are reduced for any liabilities already recognised.

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 structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented. The subordinated asset backed interests that are included within investments available for sale and loan assets, involve unconsolidated SEs with a total size of \$334 million (2016: \$457 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 CONTINUED

### 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(xii) – Hedge accounting:

**Cash flow hedges:** The Consolidated Entity is exposed to volatility in future interest cash flows arising from the consolidated securitisation vehicles and 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 exchange risk from foreign currency denominated issued debt and foreign currency denominated assets which are hedged with cross-currency swaps.

At 31 March 2017, the fair value of outstanding derivatives held by the Company and designated as cash flow hedges was \$20 million negative value (2016: \$47 million negative value).

During the financial year the Consolidated Entity recognised \$3 million of gains (2016: \$2 million losses) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2017, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was \$161 million negative value (2016: \$184 million negative value).

**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 2017, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$12 million negative value (2016: \$317 million positive value).

During the financial year fair value loss on the hedging instruments of \$329 million have been recognised (2016: \$325 million gains), offset by \$313 million (2016: \$328 million losses) of gains 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 2017, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was \$171 million positive value (2016: \$165 million positive value). During the financial year the Consolidated Entity recognised \$nil (2016: \$nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to \$4,927 million (2016: \$4,768 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of \$11 million (2016: \$112 million gain) 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.

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## NOTE 37

### Financial risk management

#### Risk Management Group (RMG)

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 and compliance, reputation, operational, legal, tax, model, cyber and environmental and social risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of the MGL Annual Report.

Primary responsibility for risk management lies at the business level. Part of the role of all business managers throughout Macquarie is to ensure they manage risks appropriately.

RMG is independent of all other areas of the Consolidated Entity. RMG approval is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the MGL CEO with a secondary reporting line to the Board Risk Committee.

## NOTE 37.1

### Credit risk

Credit risk is 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.

#### Analysis and limit approval

Responsibility for approval of credit exposures is delegated to specific individuals by the Board or CRO. 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, where appropriate, 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).

### Ratings and reviews

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 which reflects 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

(1) 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 specific provisioning is adequate.

#### Portfolio and country risk

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 mitigated by political risk insurance.

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**NOTE 37.1**

**Credit risk continued**

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.

**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 to section on collateral and credit enhancements). The geographical location is determined by the domicile and industry type of the counterparty.

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m
<b>Australia</b>					
Governments	–	4,868	460	853	9
Financial institutions	6,320	126	1,755	2,581	601
Other	–	3	1,195	57	210
<b>Total Australia</b>	<b>6,320</b>	<b>4,997</b>	<b>3,410</b>	<b>3,491</b>	<b>820</b>
<b>Asia Pacific</b>					
Governments	–	1,065	3	54	472
Financial institutions	1,481	383	173	394	135
Other	–	315	326	–	898
<b>Total Asia Pacific</b>	<b>1,481</b>	<b>1,763</b>	<b>502</b>	<b>448</b>	<b>1,505</b>
<b>Europe, Middle East and Africa</b>					
Governments	–	508	3	42	52
Financial institutions	5,181	160	3,191	310	317
Other	–	78	1,576	–	1,639
<b>Total Europe, Middle East and Africa</b>	<b>5,181</b>	<b>746</b>	<b>4,770</b>	<b>352</b>	<b>2,008</b>
<b>Americas</b>					
Governments	–	671	143	–	34
Financial institutions	12,583	60	2,122	207	279
Other	–	785	1,120	87	1,285
<b>Total Americas</b>	<b>12,583</b>	<b>1,516</b>	<b>3,385</b>	<b>294</b>	<b>1,598</b>
<b>Total gross credit risk</b>	<b>25,565</b>	<b>9,022</b>	<b>12,067</b>	<b>4,585</b>	<b>5,931</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,993 million and Life Investment Linked contracts and other unitholder assets \$722 million which are included in Note 9 – Other assets.

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Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commitments and contingent liabilities \$m	Total \$m
CONSOLIDATED 2017				
56	–	–	–	6,246
1,805	1	–	213	13,402
52,959	121	283	2,214	57,042
54,820	122	283	2,427	76,690
4	75	–	–	1,673
565	–	–	8	3,139
754	7	598	10	2,908
1,323	82	598	18	7,720
2	–	–	12	619
2,666	–	–	94	11,919
5,842	10	686	2,180	12,011
8,510	10	686	2,286	24,549
11	–	–	2	861
2,600	–	–	280	18,131
8,286	141	166	1,622	13,492
10,897	141	166	1,904	32,484
75,550	355	1,733	6,635	141,443

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**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	Other financial assets <sup>(2)</sup> \$m
<b>Australia</b>					
Governments	–	4,858	452	1,379	4
Financial institutions	5,560	241	1,851	5,769	341
Other	–	–	776	91	220
<b>Total Australia</b>	<b>5,560</b>	<b>5,099</b>	<b>3,079</b>	<b>7,239</b>	<b>565</b>
<b>Asia Pacific</b>					
Governments	–	1,153	1	53	299
Financial institutions	3,106	336	215	263	307
Other	–	247	415	–	714
<b>Total Asia Pacific</b>	<b>3,106</b>	<b>1,736</b>	<b>631</b>	<b>316</b>	<b>1,320</b>
<b>Europe, Middle East and Africa</b>					
Governments	–	676	53	–	79
Financial institutions	11,471	51	4,673	402	550
Other	–	63	3,757	–	993
<b>Total Europe, Middle East and Africa</b>	<b>11,471</b>	<b>790</b>	<b>8,483</b>	<b>402</b>	<b>1,622</b>
<b>Americas</b>					
Governments	–	375	193	–	28
Financial institutions	10,819	246	3,003	347	200
Other	–	577	2,573	278	565
<b>Total Americas</b>	<b>10,819</b>	<b>1,198</b>	<b>5,769</b>	<b>625</b>	<b>793</b>
<b>Total gross credit risk</b>	<b>30,956</b>	<b>8,823</b>	<b>17,962</b>	<b>8,582</b>	<b>4,300</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,768 million and Life Investment Linked contracts and other unitholder assets \$850 million which are included in Note 9 – Other assets.



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Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commitments and contingent liabilities \$m	Total \$m
CONSOLIDATED 2016				
105	–	–	–	6,798
1,503	10	–	182	15,457
52,853	17	417	2,827	57,201
54,461	27	417	3,009	79,456
4	72	–	–	1,582
359	–	–	2	4,588
743	15	288	133	2,555
1,106	87	288	135	8,725
12	–	–	13	833
2,181	–	–	492	19,820
7,742	127	199	1,768	14,649
9,935	127	199	2,273	35,302
22	–	–	–	618
4,909	–	–	188	19,712
8,480	–	706	1,193	14,372
13,411	–	706	1,381	34,702
78,913	241	1,610	6,798	158,185

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**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	Other financial assets <sup>(2)</sup> \$m
<b>Australia</b>					
Governments	–	4,868	461	852	7
Financial institutions	6,078	139	1,269	2,434	540
Other	–	3	1,192	47	514
<b>Total Australia</b>	<b>6,078</b>	<b>5,010</b>	<b>2,922</b>	<b>3,333</b>	<b>1,061</b>
<b>Asia Pacific</b>					
Governments	–	996	3	54	429
Financial institutions	1,386	269	170	369	98
Other	–	103	321	–	900
<b>Total Asia Pacific</b>	<b>1,386</b>	<b>1,368</b>	<b>494</b>	<b>423</b>	<b>1,427</b>
<b>Europe, Middle East and Africa</b>					
Governments	–	508	3	–	3
Financial institutions	4,850	160	3,170	302	296
Other	–	76	1,425	–	1,301
<b>Total Europe, Middle East and Africa</b>	<b>4,850</b>	<b>744</b>	<b>4,598</b>	<b>302</b>	<b>1,600</b>
<b>Americas</b>					
Governments	–	84	–	–	–
Financial institutions	11,593	44	2,329	192	263
Other	–	334	445	84	147
<b>Total Americas</b>	<b>11,593</b>	<b>462</b>	<b>2,774</b>	<b>276</b>	<b>410</b>
<b>Total gross credit risk</b>	<b>23,907</b>	<b>7,584</b>	<b>10,788</b>	<b>4,334</b>	<b>4,498</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$681 million which are included in Note 9 – Other assets.

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Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
COMPANY 2017					
53	–	–	–	–	6,241
1,774	1	–	–	213	12,448
40,609	133	159	15,697	2,079	60,433
42,436	134	159	15,697	2,292	79,122
–	75	–	–	–	1,557
294	–	–	–	8	2,594
660	6	589	3,956	11	6,546
954	81	589	3,956	19	10,697
–	–	–	–	12	526
2,192	–	–	–	54	11,024
3,811	–	684	8,885	2,244	18,426
6,003	–	684	8,885	2,310	29,976
11	–	–	–	2	97
1,471	–	–	–	150	16,042
1,805	–	103	2,533	1,994	7,445
3,287	–	103	2,533	2,146	23,584
52,680	215	1,535	31,071	6,767	143,379

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**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	Other financial assets <sup>(2)</sup> \$m
<b>Australia</b>					
Governments	–	4,857	452	1,379	2
Financial institutions	4,733	240	1,550	5,652	283
Other	–	1	776	75	541
<b>Total Australia</b>	<b>4,733</b>	<b>5,098</b>	<b>2,778</b>	<b>7,106</b>	<b>826</b>
<b>Asia Pacific</b>					
Governments	–	894	1	53	299
Financial institutions	2,968	199	215	210	243
Other	–	45	412	–	693
<b>Total Asia Pacific</b>	<b>2,968</b>	<b>1,138</b>	<b>628</b>	<b>263</b>	<b>1,235</b>
<b>Europe, Middle East and Africa</b>					
Governments	–	676	56	–	1
Financial institutions	11,174	96	4,382	399	569
Other	–	63	3,014	–	705
<b>Total Europe, Middle East and Africa</b>	<b>11,174</b>	<b>835</b>	<b>7,452</b>	<b>399</b>	<b>1,275</b>
<b>Americas</b>					
Governments	–	367	–	–	–
Financial institutions	9,420	24	3,242	338	210
Other	–	252	1,037	146	45
<b>Total Americas</b>	<b>9,420</b>	<b>643</b>	<b>4,279</b>	<b>484</b>	<b>255</b>
<b>Total gross credit risk</b>	<b>28,295</b>	<b>7,714</b>	<b>15,137</b>	<b>8,252</b>	<b>3,591</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$747 million which are included in Note 9 – Other assets.

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Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
COMPANY 2016					
90	–	–	–	–	6,780
1,467	10	–	–	106	14,041
42,034	133	152	14,737	2,532	60,981
43,591	143	152	14,737	2,638	81,802
–	72	–	–	–	1,319
169	–	–	–	2	4,006
621	5	270	3,671	176	5,893
790	77	270	3,671	178	11,218
10	–	–	–	13	756
2,310	–	–	–	481	19,411
5,959	–	144	7,469	1,956	19,310
8,279	–	144	7,469	2,450	39,477
22	–	–	–	–	389
1,317	–	–	–	104	14,655
2,954	–	466	4,471	1,033	10,404
4,293	–	466	4,471	1,137	25,448
56,953	220	1,032	30,348	6,403	157,945

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**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 on collateral and credit enhancements).

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2017					
<b>Receivables from financial institutions<sup>(1)</sup></b>	<b>23,009</b>	<b>2,556</b>	<b>–</b>	<b>–</b>	<b>25,565</b>
<b>Trading portfolio assets</b>					<b>9,022</b>
Governments	6,979	133	–	–	7,112
Financial institutions	579	150	–	–	729
Other	309	832	40	–	1,181
<b>Derivative assets</b>					<b>12,067</b>
Governments	609	–	–	–	609
Financial institutions	7,045	196	–	–	7,241
Other	2,681	1,536	–	–	4,217
<b>Debt investment securities available for sale</b>					<b>4,585</b>
Governments	949	–	–	–	949
Financial institutions	3,476	16	–	–	3,492
Other	12	132	–	–	144
<b>Other financial assets<sup>(2)</sup></b>					<b>5,931</b>
Governments	525	–	42	–	567
Financial institutions	942	371	19	–	1,332
Other	2,137	1,809	69	17	4,032
<b>Loan assets held at amortised cost<sup>(3),(5)</sup></b>					<b>75,550</b>
Governments	57	16	–	–	73
Financial institutions	6,073	1,563	–	–	7,636
Other	31,830	33,209	2,324	478	67,841
<b>Other financial assets at fair value through profit or loss</b>					<b>355</b>
Governments	75	–	–	–	75
Financial institutions	–	1	–	–	1
Other	123	148	7	1	279
<b>Due from related body corporate entities</b>					<b>1,733</b>
Other	1,733	–	–	–	1,733
<b>Total</b>	<b>89,143</b>	<b>42,668</b>	<b>2,501</b>	<b>496</b>	<b>134,808</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,993 million and Life Investment Linked contracts and other unitholder assets \$722 million which are included in Note 9 – Other assets

(3) Includes residential mortgages \$24,025 million classified as investment grade where the Consolidated Entity has obtained LMI from an investment grade counterparty.

(4) Included in the past due category are balances which were overdue by one day or more.

(5) For the year ended 31 March 2017, various loan assets at amortised cost previously classified as investment grade have been classified as below investment grade. Prior year comparatives have been restated to reflect these changes.

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**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 2016					
<b>Receivables from financial institutions<sup>(1)</sup></b>	26,510	4,446	–	–	30,956
<b>Trading portfolio assets</b>					8,823
Governments	6,462	600	–	–	7,062
Financial institutions	727	147	–	–	874
Other	273	593	21	–	887
<b>Derivative assets</b>					17,962
Governments	696	3	–	–	699
Financial institutions	9,550	192	–	–	9,742
Other	4,522	2,999	–	–	7,521
<b>Debt investment securities available for sale</b>					8,582
Governments	1,432	–	–	–	1,432
Financial institutions	6,762	19	–	–	6,781
Other	16	353	–	–	369
<b>Other financial assets<sup>(2)</sup></b>					4,300
Governments	298	73	39	–	410
Financial institutions	1,077	312	9	–	1,398
Other	1,366	1,080	42	4	2,492
<b>Loan assets held at amortised cost<sup>(3),(5)</sup></b>					78,913
Governments	116	27	–	–	143
Financial institutions	7,596	1,356	–	–	8,952
Other	31,879	34,583	2,965	391	69,818
<b>Other financial assets at fair value through profit or loss</b>					241
Governments	72	–	–	–	72
Financial institutions	–	10	–	–	10
Other	–	152	3	4	159
<b>Due from related body corporate entities</b>					1,610
Other	1,610	–	–	–	1,610
<b>Total</b>	<b>100,964</b>	<b>46,945</b>	<b>3,079</b>	<b>399</b>	<b>151,387</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,768 million and Life Investment Linked contracts and other unitholder assets \$850 million which are included in Note 9 – Other assets.

(3) Includes residential mortgages \$21,909 million classified as investment grade where the Consolidated Entity has obtained LMI from an investment grade counterparty.

(4) Included in the past due category are balances which were overdue by one day or more.

(5) For the year ended 31 March 2017, various loan assets at amortised cost previously classified as investment grade have been classified as below investment grade. Prior year comparatives have been restated to reflect these changes.

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**NOTE 37.1**

**Credit risk continued**

**Credit quality of financial assets**

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
	COMPANY 2017				
<b>Receivables from financial institutions<sup>(1)</sup></b>	<b>21,460</b>	<b>2,447</b>	<b>–</b>	<b>–</b>	<b>23,907</b>
<b>Trading portfolio assets</b>					<b>7,584</b>
Governments	6,342	114	–	–	6,456
Financial institutions	505	107	–	–	612
Other	98	389	29	–	516
<b>Derivative assets</b>					<b>10,788</b>
Governments	466	1	–	–	467
Financial institutions	6,492	446	–	–	6,938
Other	2,220	1,163	–	–	3,383
<b>Debt investment securities available for sale</b>					<b>4,334</b>
Governments	906	–	–	–	906
Financial institutions	3,297	–	–	–	3,297
Other	–	131	–	–	131
<b>Other financial assets<sup>(2)</sup></b>					<b>4,498</b>
Governments	428	11	–	–	439
Financial institutions	906	277	14	–	1,197
Other	1,409	1,429	14	10	2,862
<b>Loan assets held at amortised cost<sup>(3),(5)</sup></b>					<b>52,680</b>
Governments	52	12	–	–	64
Financial institutions	4,784	947	–	–	5,731
Other	25,492	19,333	1,536	524	46,885
<b>Other financial assets at fair value through profit or loss</b>					<b>215</b>
Governments	75	–	–	–	75
Financial institutions	–	1	–	–	1
Other	–	131	7	1	139
<b>Due from related body corporate entities</b>					<b>1,535</b>
Other	1,535	–	–	–	1,535
<b>Due from subsidiary</b>					<b>31,071</b>
Other	31,071	–	–	–	31,071
<b>Total</b>	<b>107,538</b>	<b>26,939</b>	<b>1,600</b>	<b>535</b>	<b>136,612</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$681 million which are included in Note 9 – Other assets.

(3) Includes residential mortgages \$23,216 million classified as investment grade where the Company has obtained LMI from an investment grade counterparty.

(4) Included in the past due category are balances which were overdue by one day or more.

(5) For the year ended 31 March 2017, various loan assets at amortised cost previously classified as investment grade have been classified as below investment grade. Prior year comparatives have been restated to reflect these changes.



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**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
COMPANY 2016					
<b>Receivables from financial institutions<sup>(1)</sup></b>	24,513	3,782	–	–	28,295
<b>Trading portfolio assets</b>					7,714
Governments	6,194	600	–	–	6,794
Financial institutions	506	53	–	–	559
Other	36	304	21	–	361
<b>Derivative assets</b>					15,137
Governments	506	3	–	–	509
Financial institutions	9,197	192	–	–	9,389
Other	3,077	2,162	–	–	5,239
<b>Debt investment securities available for sale</b>					8,252
Governments	1,432	–	–	–	1,432
Financial institutions	6,599	–	–	–	6,599
Other	–	221	–	–	221
<b>Other financial assets<sup>(2)</sup></b>					3,591
Governments	192	71	39	–	302
Financial institutions	1,050	249	6	–	1,305
Other	975	1,005	3	1	1,984
<b>Loan assets held at amortised cost<sup>(3),(5)</sup></b>					56,953
Governments	99	23	–	–	122
Financial institutions	4,821	442	–	–	5,263
Other	28,108	20,751	2,226	483	51,568
<b>Other financial assets at fair value through profit or loss</b>					220
Governments	72	–	–	–	72
Financial institutions	–	10	–	–	10
Other	–	133	3	2	138
<b>Due from related body corporate entities</b>					1,032
Other	1,032	–	–	–	1,032
<b>Due from subsidiaries</b>					30,348
Other	30,348	–	–	–	30,348
<b>Total</b>	<b>118,757</b>	<b>30,001</b>	<b>2,298</b>	<b>486</b>	<b>151,542</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$747 million which are included in Note 9 - Other assets.

(3) Includes residential mortgages \$21,909 million classified as investment grade where the Company has obtained LMI from an investment grade counterparty.

(4) Included in the past due category are balances which were overdue by one day or more.

(5) For the year ended 31 March 2017, various loan assets at amortised cost previously classified as investment grade have been classified as below investment grade. Prior year comparatives have been restated to reflect these changes.

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**NOTE 37.1**

**Credit risk continued**

**Ageing analysis of assets past due but not individually impaired and individually impaired assets:**

Class of financial asset	Past due but not individually impaired				Total past due but not individually impaired \$m	Individually impaired \$m	Total \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m			
CONSOLIDATED 2017							
<b>Other financial assets</b>							
Government	12	4	3	23	42	–	42
Financial institutions	7	2	1	9	19	–	19
Other	48	10	2	9	69	17	86
<b>Loan assets held at amortised cost</b>							
Other	1,323	312	131	558	2,324	478	2,802
<b>Trading portfolio assets</b>							
Other	–	–	–	40	40	–	40
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	7	–	–	7	1	8
<b>Total</b>	<b>1,390</b>	<b>335</b>	<b>137</b>	<b>639</b>	<b>2,501</b>	<b>496</b>	<b>2,997</b>
CONSOLIDATED 2016							
<b>Other financial assets</b>							
Government	39	–	–	–	39	–	39
Financial institutions	2	2	5	–	9	–	9
Other	29	5	2	6	42	4	46
<b>Loan assets held at amortised cost</b>							
Other	1,585	387	166	827	2,965	391	3,356
<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>1,655</b>	<b>396</b>	<b>174</b>	<b>854</b>	<b>3,079</b>	<b>399</b>	<b>3,478</b>

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**NOTE 37.1****Credit risk continued****Ageing analysis of assets past due but not individually impaired and individually impaired assets:**

Class of financial asset	Past due but not individually impaired						Total past due but not individually impaired \$m	Individually impaired \$m	Total \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m					
COMPANY 2017									
<b>Debt investment securities available for sale</b>									
Other	-	-	-	-	-	-	-	-	-
<b>Other financial assets</b>									
Government	-	-	-	-	-	-	-	-	-
Financial institutions	6	1	1	6	14	-	-	14	14
Other	13	-	-	1	14	10	-	24	24
<b>Loan assets held at amortised cost</b>									
Other	752	243	122	419	1,536	524	-	2,060	2,060
<b>Trading portfolio assets</b>									
Other	-	-	-	29	29	-	-	29	29
<b>Other financial assets at fair value through profit or loss</b>									
Other	-	7	-	-	7	1	-	8	8
<b>Total</b>	<b>771</b>	<b>251</b>	<b>123</b>	<b>455</b>	<b>1,600</b>	<b>535</b>	<b>-</b>	<b>2,135</b>	<b>2,135</b>
COMPANY 2016									
<b>Debt investment securities available for sale</b>									
Other	-	-	-	-	-	-	-	-	-
<b>Other financial assets</b>									
Government	39	-	-	-	39	-	-	39	39
Financial institutions	1	1	4	-	6	-	-	6	6
Other	2	-	-	1	3	1	-	4	4
<b>Loan assets held at amortised cost</b>									
Other	1,001	319	138	768	2,226	483	-	2,709	2,709
<b>Trading portfolio assets</b>									
Other	-	-	-	21	21	-	-	21	21
<b>Other financial assets at fair value through profit or loss</b>									
Other	-	2	1	-	3	2	-	5	5
<b>Total</b>	<b>1,043</b>	<b>322</b>	<b>143</b>	<b>790</b>	<b>2,298</b>	<b>486</b>	<b>-</b>	<b>2,784</b>	<b>2,784</b>

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CONTINUED**NOTE 37.1****Credit risk 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 and the Company when determining whether an asset is impaired are set out in Note 1(xv) – Impairment.

Of the collateral held against past due or impaired balances for loan assets held at amortised cost, \$1,704 million (2016: \$1,663 million) in the Consolidated Entity and \$1,704 million (2016: \$1,663 million) in the Company relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances. The collateral held against past due or impaired balances for other assets represents equity securities held as security against failed trade settlements.

**Repossessed collateral**

In the event of a customer default on facilities, the Consolidated Entity and the Company may take possession of real estate or other assets held as security. During the financial year, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of \$50 million (2016: \$10 million).

**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. For details, refer to Note 6 – Receivables from financial institutions.

Securities borrowed require the deposit of cash collateral at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities provided as collateral generally in excess of the principal amount.

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## NOTE 37.1

### Credit risk continued

#### Collateral and credit enhancements held continued

*Loan assets held at amortised cost*

#### Residential mortgage loans

Residential mortgages are secured by fixed charges over a borrower's property. Further, The Consolidated Entity has obtained LMI from an investment grade counterparty to cover a substantial 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. During the year, the Americas mortgages portfolio was sold and the Canadian mortgage book has been classified as disposal group held for sale. The mortgage loan balance includes \$16,332 million (2016: \$18,087 million) which has been securitised by consolidated SPEs.

The tables below provide information on Loan to Value Ratios (LVRs) determined using current loan balances and the most recent valuation of mortgaged assets in response to variation in the loan request.

	2017				2016			
	Australia \$m	Americas \$m	EMEA \$m	Total \$m	Australia \$m	Americas \$m	EMEA \$m	Total \$m
<b>Fully collateralised</b>	CONSOLIDATED							
Loan to value ratio								
Less than 25%	1,004	–	13	1,017	922	15	14	951
25% to 50%	4,367	–	168	4,535	4,078	72	103	4,253
51% to 70%	8,087	–	464	8,551	7,649	306	375	8,330
71% to 80%	10,290	–	225	10,515	10,015	497	219	10,731
81% to 90%	4,490	–	132	4,622	5,060	541	49	5,650
91% to 100%	959	–	123	1,082	1,305	99	30	1,434
<b>Partly collateralised</b>	13	–	–	13	15	–	–	15
<b>Total mortgages</b>	<b>29,210</b>	<b>–</b>	<b>1,125</b>	<b>30,335</b>	<b>29,044</b>	<b>1,530</b>	<b>790</b>	<b>31,364</b>
<b>Fully collateralised</b>	COMPANY							
Loan to value ratio								
Less than 25%	933	–	12	945	824	–	3	827
25% to 50%	4,186	–	164	4,350	3,807	–	51	3,858
51% to 70%	7,781	–	429	8,210	7,226	–	243	7,469
71% to 80%	10,090	–	196	10,286	9,697	–	167	9,864
81% to 90%	4,410	–	51	4,461	4,867	–	18	4,885
91% to 100%	946	–	41	987	1,245	–	7	1,252
<b>Partly collateralised</b>	9	–	–	9	11	–	–	11
<b>Total mortgages</b>	<b>28,355</b>	<b>–</b>	<b>893</b>	<b>29,248</b>	<b>27,677</b>	<b>–</b>	<b>489</b>	<b>28,166</b>

#### Lease and retail financing

The Consolidated Entity leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying fixed assets are held by the Consolidated Entity as collateral. For the Consolidated Entity, of the lease and retail finance portfolio of \$19,513 million (2016: \$19,273 million), the credit exposure after considering the depreciated value of collateral is \$8,483 million (2016: \$8,817 million). For the Company, of the lease and retail finance portfolio of \$5,474 million (2016: \$8,250 million), the credit exposure after considering the depreciated value of collateral is \$2,513 million (2016: \$4,076 million).

The collateralised value is based on standard recovery rates for the underlying assets of retail and corporate clients.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

CONTINUED

#### NOTE 37.1

##### Credit risk continued

##### Collateral and credit enhancements held continued

##### Loan assets held at amortised cost continued

##### 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. For the Consolidated Entity, of the term lending of \$15,653 million (2016: \$17,050 million), the credit exposure after the estimated value of collateral and credit enhancements is \$3,527 million (2016: \$4,348 million). For the Company, of the term lending of \$10,511 million (2016: \$12,834 million), the credit exposure after the estimated value of collateral and credit enhancements is \$2,564 million (2016: \$3,300 million).

##### 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.

	2017 \$m	2016 \$m
<b>Fully collateralised</b>		CONSOLIDATED
Loan to value ratio		
Less than 50%	182	158
51% to 70%	967	762
71% to 80%	1,112	1,076
81% to 90%	135	187
91% to 100%	26	43
<b>Partly collateralised by real estate</b>	<b>31</b>	<b>15</b>
<b>Total mortgages</b>	<b>2,453</b>	<b>2,241</b>

##### Investment and insurance premium lending

The Consolidated Entity lends to clients for investment and insurance premium financing. Where the Consolidated Entity lends for investment, it holds the underlying investment and/or alternative acceptable assets as collateral, or holds security by way of a registered pledge over the underlying investment. 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. For the Consolidated Entity, of the investment and insurance premium lending portfolio of \$722 million (2016: \$1,006 million), \$722 million (2016: \$990 million) is fully collateralised. For the Company, of the investment and insurance premium lending portfolio of \$377 million (2016: \$432 million), \$195 million (2016: \$206 million) is fully collateralised.

##### Additional collateral

The Consolidated Entity excludes other types of collateral, such as unsupported guarantees. 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

Other financial assets at fair value through profit or loss include financing provided to clients for investing. Financing may be unsecured or secured (partially or fully). Collateral is generally comprised of underlying securities investments or cash deposits of the investors.

##### 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. The Consolidated Entity's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

Exchange traded and OTC-cleared derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house. The clearing house is responsible for managing the risk associated with the process on behalf of their members and ensuring it has adequate resources to fulfil 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. The Consolidated Entity held exchange traded derivatives with positive replacement values as at 31 March 2017 of \$1,414 million (2016: \$1,792 million). The Company held exchange traded derivatives with positive replacement values as at 31 March 2017 of \$1,269 million (2016: \$1,517 million).

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## NOTE 37.1

### Credit risk continued

#### Collateral and credit enhancements held continued

##### *Derivative financial instruments continued*

For OTC derivative contracts, the Consolidated Entity and Company often have 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. In the event of default, they require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Company also often execute a Credit Support Annex in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2017, the Consolidated Entity held OTC contracts with a positive replacement value of \$10,653 million (2016: \$16,170 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$6,651 million (2016: \$8,814 million) and margins held (excluding the impact of over-collateralisation) of \$1,340 million (2016: \$2,430 million).

As at 31 March 2017, the Company held OTC contracts with a positive replacement value of \$9,519 million (2016: \$13,620 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$5,972 million (2016: \$7,460 million) and margins held (excluding the impact of over-collateralisation) of \$1,203 million (2016: \$2,057 million).

##### *Debt investments securities available for sale*

This classification mainly includes debt securities held by Group Treasury for liquidity management purposes as well as certain asset-backed securities.

The Consolidated Entity utilises Credit Default Swaps (CDS), Guarantees, other forms of credit enhancements or collateral in order to minimise the exposure to credit risk.

##### *Other assets*

Security settlement of \$2,315 million (2016: \$2,186 million) in the Consolidated Entity and \$2,105 million (2016: \$2,059 million), in the Company 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). Security settlements are collateralised with the underlying equity securities or cash held by the Consolidated Entity until date of settlement.

##### *Credit commitments and contingent liabilities*

Undrawn facilities and lending commitments of \$2,636 million (2016: \$2,811 million) in the Consolidated Entity and \$2,350 million (2016: \$1,871 million) in the Company are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of \$4,738 million (2016: \$4,806 million) in the Consolidated Entity and \$3,777 million (2016: \$4,046 million) in the Company.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017 CONTINUED

### NOTE 37.2

#### Liquidity risk

##### Governance and oversight

Macquarie Group'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 (ALCO) and RMG. Macquarie Group's liquidity policies are approved by the Board after endorsement by the ALCO and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, the CFO, CRO, the Group Treasurer, Head of Balance Sheet Management and Operating 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

The *MBL Liquidity Policy* outlines the liquidity requirements for Macquarie Bank.

Macquarie Bank's liquidity risk appetite ensures that it is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets and with only a limited reduction in franchise businesses. MBL is an ADI and is funded mainly with capital, long term liabilities and deposits.

##### Liquidity contingency plan

Group Treasury maintains a *Liquidity Contingency Plan*, which outlines how a liquidity crisis would be managed. 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 checklist of possible actions to conserve or raise additional liquidity
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

In addition, Macquarie Bank monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in its 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 by both Group Treasury and RMG. It is submitted to the Board for approval.

Macquarie Bank 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 Group prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie Group'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 the ALCO and approved by the Board.

##### Scenario analysis

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

The scenarios 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 Macquarie Group name 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 Group'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 to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. Macquarie Group'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. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High Quality Liquid Assets (HQLA) or be an asset type that is eligible as collateral in the Reserve Bank of Australia's (RBA) Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio is held in a range of currencies to ensure Macquarie Group's liquidity requirements are broadly matched by currency.



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## **NOTE 37.2**

### **Liquidity risk continued**

#### **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.

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**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.

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

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
CONSOLIDATED 2017						
Trading portfolio liabilities	–	4,922	–	–	–	4,922
Derivative liabilities (trading)	–	10,437	–	–	–	10,437
Derivative liabilities (hedging relationship)						
Contractual amounts payable	–	3,260	1,695	4,609	1,756	11,320
Contractual amounts receivable	–	(3,115)	(1,533)	(3,859)	(1,480)	(9,987)
Deposits	50,403	4,228	2,580	460	66	57,737
Other financial liabilities <sup>(1)</sup>	–	6,077	–	–	–	6,077
Payables to financial institutions	4,999	2,423	1,724	3,863	1,854	14,863
Debt issued at amortised cost <sup>(2)</sup>	–	7,266	8,047	20,671	13,581	49,565
Other financial liabilities at fair value through profit or loss	–	39	95	171	2,379	2,684
Due to related body corporate entities	1,400	5,967	–	–	–	7,367
Loan capital <sup>(3)</sup>	–	462	250	2,997	2,412	6,121
<b>Total undiscounted cash flows</b>	<b>56,802</b>	<b>41,966</b>	<b>12,858</b>	<b>28,912</b>	<b>20,568</b>	<b>161,106</b>
Contingent liabilities	–	1,081	–	–	–	1,081
Commitments	442	594	543	2,245	1,730	5,554
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>442</b>	<b>1,675</b>	<b>543</b>	<b>2,245</b>	<b>1,730</b>	<b>6,635</b>

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

(2) Includes \$18,192 million (2016: \$22,642 million) payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes and debt is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.

(3) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 26 – Loan capital.

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

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**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	More than 5 years \$m	Total \$m
CONSOLIDATED 2016						
Trading portfolio liabilities	–	4,794	–	–	–	4,794
Derivative liabilities (trading)	–	13,746	–	–	–	13,746
Derivative liabilities (hedging relationship)						
Contractual amounts payable	–	993	932	4,038	1,167	7,130
Contractual amounts receivable	–	(863)	(667)	(3,137)	(955)	(5,622)
Deposits	43,203	4,897	3,553	585	77	52,315
Other financial liabilities <sup>(1)</sup>	–	4,647	–	–	–	4,647
Payables to financial institutions <sup>(2)</sup>	7,748	3,495	287	9,148	424	21,102
Debt issued at amortised cost <sup>(3)</sup>	–	12,422	8,029	25,994	18,552	64,997
Other financial liabilities at fair value through profit or loss	–	43	99	164	2,461	2,767
Due to related body corporate entities	1,700	5,855	–	–	–	7,555
Loan capital <sup>(4)</sup>	–	144	212	2,232	2,478	5,066
<b>Total undiscounted cash flows</b>	<b>52,651</b>	<b>50,173</b>	<b>12,445</b>	<b>39,024</b>	<b>24,204</b>	<b>178,497</b>
Contingent liabilities	–	1,231	–	–	–	1,231
Commitments	2	1,155	354	3,459	597	5,567
<b>Total undiscounted contingent liabilities and commitments<sup>(5)</sup></b>	<b>2</b>	<b>2,386</b>	<b>354</b>	<b>3,459</b>	<b>597</b>	<b>6,798</b>

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

(2) In April 2016, the Consolidated Entity exercised its right to repay \$3,000 million payables to financial institutions that was contractually due to mature more than 12 months after balance date on 1 May 2017.

(3) Includes \$22,642 million payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes and debt is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.

(4) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer 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' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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**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	More than 5 years \$m	Total \$m
COMPANY 2017						
Trading portfolio liabilities	–	5,143	–	–	–	5,143
Derivative liabilities (trading)	–	9,883	–	–	–	9,883
Derivative liabilities (hedging relationship)						
Contractual amounts payable	–	1,324	138	1,806	1,734	5,002
Contractual amounts receivable	–	(1,265)	(192)	(1,471)	(1,423)	(4,351)
Deposits	49,096	4,225	2,579	430	22	56,352
Other financial liabilities <sup>(1)</sup>	–	4,856	–	–	–	4,856
Payables to financial institutions	4,999	1,929	1,465	2,739	239	11,371
Debt issued at amortised cost	–	6,599	5,951	14,783	4,040	31,373
Other financial liabilities at fair value through profit or loss	–	2,021	101	171	2,379	4,672
Due to subsidiaries	–	9,719	5	2,671	5,333	17,728
Due to related body corporate entities	1,400	4,559	–	–	–	5,959
Loan capital <sup>(2)</sup>	–	462	250	2,997	2,412	6,121
<b>Total undiscounted cash flows</b>	<b>55,495</b>	<b>49,455</b>	<b>10,297</b>	<b>24,126</b>	<b>14,736</b>	<b>154,109</b>
Contingent liabilities	–	2,271	–	–	–	2,271
Commitments	290	354	437	1,753	1,662	4,496
<b>Total undiscounted contingent liabilities and commitments<sup>(3)</sup></b>	<b>290</b>	<b>2,625</b>	<b>437</b>	<b>1,753</b>	<b>1,662</b>	<b>6,767</b>

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

(2) 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 Note 26 – Loan capital.

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

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**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	More than 5 years \$m	Total \$m
	COMPANY 2016					
Trading portfolio liabilities	–	4,824	–	–	–	4,824
Derivative liabilities (trading)	–	13,158	–	–	–	13,158
Derivative liabilities (hedging relationship)						
Contractual amounts payable	–	412	115	1,019	891	2,437
Contractual amounts receivable	–	(385)	(77)	(754)	(731)	(1,947)
Deposits	42,011	4,889	3,550	566	21	51,037
Other financial liabilities <sup>(1)</sup>	–	3,081	–	–	–	3,081
Payables to financial institutions <sup>(2)</sup>	8,752	2,283	162	6,479	243	17,919
Debt issued at amortised cost	–	11,700	5,351	20,325	4,976	42,352
Other financial liabilities at fair value through profit or loss	–	1,827	82	151	2,461	4,521
Due to subsidiaries	–	7,353	208	471	7,280	15,312
Due to related body corporate entities	1,700	4,210	–	–	–	5,910
Loan capital <sup>(3)</sup>	–	144	212	2,232	2,478	5,066
<b>Total undiscounted cash flows</b>	<b>52,463</b>	<b>53,496</b>	<b>9,603</b>	<b>30,489</b>	<b>17,619</b>	<b>163,670</b>
Contingent liabilities	–	1,638	–	–	–	1,638
Commitments	2	1,102	232	2,982	447	4,765
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>2</b>	<b>2,740</b>	<b>232</b>	<b>2,982</b>	<b>447</b>	<b>6,403</b>

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

(2) In April 2016, the Consolidated Entity exercised its right to repay \$3,000 million 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 are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 26 – Loan capital.

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

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**NOTE 37.3**

**Market risk**

**Traded market risk**

Market risk is the risk of 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.

The Consolidated Entity 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 tables below show the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity and Company operate. The VaR shown in the tables are based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2017			2016		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
	CONSOLIDATED					
Equities	9.65	12.65	5.23	10.88	16.54	5.89
Interest rates	5.55	8.57	3.27	5.46	8.91	3.92
Foreign exchange and bullion	2.12	4.26	0.69	2.16	5.90	1.12
Commodities	6.78	15.70	3.78	11.71	18.48	6.74
Aggregate	11.66	19.22	6.56	16.32	22.09	9.51

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## NOTE 37.3

### Market risk *continued*

	2017			2016		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
						COMPANY
Equities	9.43	12.34	4.94	9.61	16.10	4.37
Interest rates	5.57	8.65	3.21	5.19	8.65	3.76
Foreign exchange and bullion	2.27	4.97	0.94	2.85	7.20	1.30
Commodities	8.28	11.18	5.89	10.77	16.85	7.15
Aggregate	13.74	19.90	9.23	15.61	22.99	9.06

### 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.

### Interest rate risk

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

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

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**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 below are United States dollar, Great British pound, Euro and Canadian dollar as shown below.

	2017		2016	
	Movement in exchange rates %	Sensitivity of equity after tax \$m	Movement in exchange rates %	Sensitivity of equity after tax \$m
				CONSOLIDATED
United States dollar	<b>+10</b>	<b>(368)</b>	+10	(367)
Great British pound	<b>+10</b>	<b>(73)</b>	+10	(84)
Euro	<b>+10</b>	<b>(33)</b>	+10	(35)
Canadian dollar	<b>+10</b>	<b>(13)</b>	+10	(23)
<b>Total</b>		<b>(487)</b>		<b>(509)</b>
United States dollar	<b>-10</b>	<b>450</b>	-10	448
Great British pound	<b>-10</b>	<b>90</b>	-10	102
Euro	<b>-10</b>	<b>40</b>	-10	43
Canadian dollar	<b>-10</b>	<b>15</b>	-10	28
<b>Total</b>		<b>595</b>	-10	<b>621</b>



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### NOTE 37.3

#### Market risk continued

##### Equity price risk

The tables below indicate the equity markets to which the Consolidated Entity and the Company had significant exposure at 31 March on their non-trading investment portfolio. This excludes 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 (as a result of a change in the fair value of financial assets designated at fair value) due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Geographic Region	2017			2016		
	Movement in in equity price %	Sensitivity of profit after tax \$m	Sensitivity of equity after tax \$m	Movement in in equity price %	Sensitivity of profit after tax \$m	Sensitivity of equity after tax \$m
<b>Listed</b>						CONSOLIDATED
Australia	+10	–	3	+10	–	6
Americas	+10	2	1	+10	2	1
Europe, Middle East and Africa	+10	1	–	+10	3	–
<b>Unlisted</b>	+10	1	41	+10	2	23
<b>Total</b>		4	45		7	30
<b>Listed</b>						
Australia	–10	–	(3)	–10	–	(6)
Americas	–10	(2)	(1)	–10	(2)	(1)
Europe, Middle East and Africa	–10	(1)	–	–10	(3)	–
<b>Unlisted</b>	–10	(1)	(41)	–10	(2)	(23)
<b>Total</b>		(4)	(45)		(7)	(30)
<b>Listed</b>						COMPANY
Australia	+10	1	3	+10	–	6
Americas	+10	–	–	+10	–	–
Europe, Middle East and Africa	+10	1	–	+10	3	–
<b>Unlisted</b>	+10	1	33	+10	1	12
<b>Total</b>		3	36		4	18
<b>Listed</b>						
Australia	–10	(1)	(3)	–10	–	(6)
Americas	–10	–	–	–10	–	–
Europe, Middle East and Africa	–10	(1)	–	–10	(3)	–
<b>Unlisted</b>	–10	(1)	(33)	–10	(1)	(12)
<b>Total</b>		(3)	(36)		(4)	(18)

## NOTES TO THE FINANCIAL STATEMENTS

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#### NOTE 38

##### Fair value of financial assets and financial 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:

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Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

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Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

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Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

##### Bid-offer

AASB 13 *Fair value management* requires use of the price within the bid-offer spread that is most representative of fair value.

Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments.

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 gain and loss, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of

- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
- for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (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.

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## NOTE 38

### Fair value of financial assets and financial liabilities

continued

The fair values calculated for financial assets which are carried in the statement of financial position at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described below, can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements 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 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 Consolidated Entity, the fair value of balances due from/to related body corporate entities is approximated by their carrying amount as the balances are generally receivable/payable on demand.

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**NOTE 38**

**Fair value of financial assets and financial liabilities continued**

The table below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Company. Fair values are calculated for disclosure purpose only.

	2017		2016	
	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
<b>Assets</b>			CONSOLIDATED	
Receivables from financial institutions	25,565	25,564	30,956	30,956
Other financial assets <sup>(1)</sup>	5,931	5,931	4,300	4,300
Loan assets held at amortised cost	75,550	75,937	78,913	79,212
Due from related body corporate entities	1,733	1,733	1,610	1,610
<b>Total assets</b>	<b>108,779</b>	<b>109,165</b>	115,779	116,078
<b>Liabilities</b>				
Deposits	57,682	57,696	52,228	52,250
Other financial liabilities <sup>(2)</sup>	6,077	6,077	3,876	3,876
Payables to financial institutions	14,236	14,293	20,555	20,540
Due to related body corporate entities	7,367	7,367	7,555	7,555
Debt issued at amortised cost	43,137	43,302	55,142	54,766
Loan capital	4,615	4,775	4,078	4,046
<b>Total liabilities</b>	<b>133,114</b>	<b>133,510</b>	143,434	143,033
<b>Assets</b>			COMPANY	
Receivables from financial institutions	23,907	23,907	28,295	28,295
Other financial assets <sup>(3)</sup>	4,498	4,402	3,591	3,591
Loan assets held at amortised cost	52,680	52,850	56,953	57,177
Due from related body corporate entities	1,535	1,535	1,032	1,032
Due from subsidiaries	31,071	31,071	30,348	30,348
<b>Total assets</b>	<b>113,691</b>	<b>113,765</b>	120,219	120,443
<b>Liabilities</b>				
Deposits	56,298	56,313	50,952	50,974
Other financial liabilities <sup>(4)</sup>	4,856	4,856	3,081	3,081
Payables to financial institutions	11,212	11,259	17,468	17,453
Due to related body corporate entities	5,959	5,959	5,910	5,910
Due to subsidiaries	17,480	17,480	15,312	15,312
Debt issued at amortised cost	29,691	29,882	40,242	39,911
Loan capital	4,615	4,775	4,078	4,046
<b>Total liabilities</b>	<b>130,111</b>	<b>130,524</b>	137,043	136,687

(1) This balance excludes other non-financial assets of \$1,993 million (2016: \$1,768 million) and Life investment linked contracts and other unitholder assets of \$722 million (2016: \$850 million) which are included in Note 9 - Other assets.

(2) This balance excludes other non-financial liabilities of \$2,584 million (2016: \$2,474 million) and Life investment linked contracts and other unitholder liabilities of \$714 million (2016: \$771 million) which are included in Note 21 - Other liabilities.

(3) This balance excludes other non-financial assets of \$681 million (2016: \$747 million) which are included in Note 9 - Other assets.

(4) This balance excludes other non-financial liabilities of \$1,360 million (2016: \$1,537 million) which are included in Note 21 - Other liabilities.

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**NOTE 38****Fair value of financial assets and financial 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
<b>CONSOLIDATED 2017</b>				
<b>Assets</b>				
Receivables from financial institutions	7,637	17,927	–	25,564
Other financial assets	–	5,931	–	5,931
Loan assets held at amortised cost	7,268	7,035	61,634	75,937
Due from related body corporate entities	–	1,733	–	1,733
<b>Total assets</b>	<b>14,905</b>	<b>32,626</b>	<b>61,634</b>	<b>109,165</b>
<b>Liabilities</b>				
Deposits	50,552	7,144	–	57,696
Other financial liabilities	–	6,077	–	6,077
Payables to financial institutions	1,046	10,779	2,468	14,293
Due to related body corporate entities	–	7,367	–	7,367
Debt issued at amortised cost	–	37,339	5,963	43,302
Loan capital	1,743	3,032	–	4,775
<b>Total liabilities</b>	<b>53,341</b>	<b>71,738</b>	<b>8,431</b>	<b>133,510</b>
<b>CONSOLIDATED 2016</b>				
<b>Assets</b>				
Receivables from financial institutions	7,591	23,365	–	30,956
Other financial assets	–	4,300	–	4,300
Loan assets held at amortised cost	8,382	7,897	62,933	79,212
Due from related body corporate entities	–	1,610	–	1,610
<b>Total assets</b>	<b>15,973</b>	<b>37,172</b>	<b>62,933</b>	<b>116,078</b>
<b>Liabilities</b>				
Deposits	43,366	8,884	–	52,250
Other financial liabilities	–	3,876	–	3,876
Payables to financial institutions	1,572	16,310	2,658	20,540
Due to related body corporate entities	–	7,555	–	7,555
Debt issued at amortised cost	–	47,795	6,971	54,766
Loan capital	734	3,312	–	4,046
<b>Total liabilities</b>	<b>45,672</b>	<b>87,732</b>	<b>9,629</b>	<b>143,033</b>

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**NOTE 38**

**Fair value of financial assets and financial 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
<b>COMPANY 2017</b>				
<b>Assets</b>				
Receivables from financial institutions	6,173	17,734	–	23,907
Other financial assets	–	4,402	–	4,402
Loan assets held at amortised cost	4,877	3,679	44,294	52,850
Due from related body corporate entities	–	1,535	–	1,535
Due from subsidiaries	–	31,071	–	31,071
<b>Total assets</b>	<b>11,050</b>	<b>58,421</b>	<b>44,294</b>	<b>113,765</b>
<b>Liabilities</b>				
Deposits	49,182	7,131	–	56,313
Other financial liabilities	–	4,856	–	4,856
Payables to financial institutions	1,046	10,213	–	11,259
Due to related body corporate entities	–	5,959	–	5,959
Due to subsidiaries	–	17,480	–	17,480
Debt issued at amortised cost	–	29,882	–	29,882
Loan capital	1,743	3,032	–	4,775
<b>Total liabilities</b>	<b>51,971</b>	<b>78,553</b>	<b>–</b>	<b>130,524</b>
<b>COMPANY 2016</b>				
<b>Assets</b>				
Receivables from financial institutions	5,172	23,123	–	28,295
Other financial assets	–	3,591	–	3,591
Loan assets held at amortised cost	5,340	4,435	47,402	57,177
Due from related body corporate entities	–	1,032	–	1,032
Due from subsidiaries	–	30,348	–	30,348
<b>Total assets</b>	<b>10,512</b>	<b>62,529</b>	<b>47,402</b>	<b>120,443</b>
<b>Liabilities</b>				
Deposits	42,117	8,857	–	50,974
Other financial liabilities	–	3,081	–	3,081
Payables to financial institutions	1,568	15,885	–	17,453
Due to related body corporate entities	–	5,910	–	5,910
Due to subsidiaries	–	15,312	–	15,312
Debt issued at amortised cost	–	39,911	–	39,911
Loan capital	734	3,312	–	4,046
<b>Total liabilities</b>	<b>44,419</b>	<b>92,268</b>	<b>–</b>	<b>136,687</b>

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**NOTE 38****Fair value of financial assets and financial 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 2017				
<b>Assets</b>				
Trading portfolio assets	17,923	8,386	328	26,637
Derivative assets	770	10,949	348	12,067
Investment securities available for sale	3,176	1,628	378	5,182
Other financial assets at fair value through profit or loss	5	742	13	760
Other financial assets <sup>(1)</sup>	24	691	7	722
<b>Total assets</b>	<b>21,898</b>	<b>22,396</b>	<b>1,074</b>	<b>45,368</b>
<b>Liabilities</b>				
Trading portfolio liabilities	3,105	1,817	–	4,922
Derivative liabilities	686	10,214	201	11,101
Other financial liabilities at fair value through profit or loss	–	1,877	57	1,934
Other financial liabilities <sup>(2)</sup>	–	707	7	714
<b>Total liabilities</b>	<b>3,791</b>	<b>14,615</b>	<b>265</b>	<b>18,671</b>
CONSOLIDATED 2016				
<b>Assets</b>				
Trading portfolio assets	15,037	7,266	759	23,062
Derivative assets	940	16,620	402	17,962
Investment securities available for sale	6,710	1,694	604	9,008
Other financial assets at fair value through profit or loss	–	1,039	18	1,057
Other financial assets <sup>(1)</sup>	71	772	79	922
<b>Total assets</b>	<b>22,758</b>	<b>27,391</b>	<b>1,862</b>	<b>52,011</b>
<b>Liabilities</b>				
Trading portfolio liabilities	2,750	2,044	–	4,794
Derivative liabilities	1,168	13,344	201	14,713
Other financial liabilities at fair value through profit or loss	–	2,253	54	2,307
Other financial liabilities <sup>(2)</sup>	–	764	7	771
<b>Total liabilities</b>	<b>3,918</b>	<b>18,405</b>	<b>262</b>	<b>22,585</b>

(1) This balance represents \$722 million (2016: \$850 million) of life investment linked contracts and other unitholder assets which are included in Note 9 – Other assets.

(2) This balance represents \$714 million (2016: \$771 million) of life investment linked contracts and other unitholder liabilities which are included in Note 21 – Other liabilities.

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**NOTE 38**

**Fair value of financial assets and financial liabilities continued**

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
COMPANY 2017				
<b>Assets</b>				
Trading portfolio assets	14,398	5,972	239	20,609
Derivative assets	759	9,796	233	10,788
Investment securities available for sale	3,128	1,418	255	4,801
Other financial assets at fair value through profit or loss	5	579	10	594
<b>Total assets</b>	<b>18,290</b>	<b>17,765</b>	<b>737</b>	<b>36,792</b>
<b>Liabilities</b>				
Trading portfolio liabilities	3,233	1,910	–	5,143
Derivative liabilities	549	9,612	119	10,280
Other financial liabilities at fair value through profit or loss	–	3,865	56	3,921
<b>Total liabilities</b>	<b>3,782</b>	<b>15,387</b>	<b>175</b>	<b>19,344</b>
COMPANY 2016				
<b>Assets</b>				
Trading portfolio assets	12,262	5,604	290	18,156
Derivative assets	641	14,092	404	15,137
Investment securities available for sale	6,704	1,494	296	8,494
Other financial assets at fair value through profit or loss	–	990	15	1,005
Other financial assets	–	–	72	72
<b>Total assets</b>	<b>19,607</b>	<b>22,180</b>	<b>1,077</b>	<b>42,864</b>
<b>Liabilities</b>				
Trading portfolio liabilities	2,738	2,086	–	4,824
Derivative liabilities	605	12,703	166	13,474
Other financial liabilities at fair value through profit or loss	–	4,008	54	4,062
<b>Total liabilities</b>	<b>3,343</b>	<b>18,797</b>	<b>220</b>	<b>22,360</b>



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**NOTE 38**

**Fair value of financial assets and financial liabilities continued**

**Reconciliation of balances in Level 3 of the fair value hierarchy**

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and for the Company for the financial years ended 31 March 2017 and 31 March 2016:

	Trading portfolio assets \$m	Investment securities available for sale \$m
<b>Balance as at 1st April 2015</b>	657	685
Purchases	351	19
Sales	(172)	(82)
Settlements	–	(36)
Transfers into Level 3	78	76
Transfers out of Level 3	(56)	(149)
Reclassifications	–	23
Fair value gains recognised in the income statement <sup>(1)</sup>	(99)	6
Fair value (losses)/gains recognised in other comprehensive income <sup>(1)</sup>	–	62
<b>Balance as at 31 March 2016</b>	759	604
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>	(99)	6
<b>Balance as at 1st April 2016</b>	759	604
Purchases	217	67
Sales	(488)	(21)
Issues	–	–
Settlements	–	(162)
Transfers into Level 3	59	–
Transfers out of Level 3	(217)	(12)
Reclassifications	–	–
Fair value (losses)/gains recognised in the income statement <sup>(1)</sup>	(2)	(11)
Fair value gains recognised in other comprehensive income <sup>(1)</sup>	–	(87)
<b>Balance as at 31 March 2017</b>	328	378
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>	2	–

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

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$348 million (2016: \$402 million) and derivative liabilities are \$201 million (2016: \$201 million).

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Assets of disposals group classified as held for sale \$m	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 2016						
68	157	–	(22)	–	88	1,633
–	–	–	(45)	–	116	441
–	(5)	–	8	–	(160)	(411)
–	–	–	–	–	–	(36)
–	7	7	–	(7)	11	172
–	(108)	–	–	–	29	(284)
(56)	(32)	65	–	–	–	–
(12)	(1)	7	5	–	117	23
–	–	–	–	–	–	62
–	18	79	(54)	(7)	201	1,600
–	–	7	5	–	124	43
CONSOLIDATED 2017						
–	18	79	(54)	(7)	201	1,600
–	–	–	–	–	91	375
–	(5)	(72)	–	–	(124)	(710)
–	–	–	–	–	–	–
–	–	–	–	–	–	(162)
–	–	–	–	–	8	67
–	–	–	–	–	(29)	(258)
–	–	–	–	–	–	–
–	–	–	(3)	–	–	(16)
–	–	–	–	–	–	(87)
–	13	7	(57)	(7)	147	809
–	–	–	(5)	–	(2)	(5)

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**NOTE 38**

**Fair value of financial assets and financial liabilities continued**

**Reconciliation of balances in Level 3 of the fair value hierarchy continued**

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and the Company for the financial years ended 31 March 2017 and 31 March 2016:

	Trading portfolio assets \$m	Investment securities available for sale \$m
<b>Balance at 1st April 2015</b>	423	319
Purchases	115	19
Sales	(155)	(40)
Settlements	–	–
Transfers into Level 3	36	77
Transfers out of Level 3	(56)	(139)
Reclassifications	–	11
Fair value gains recognised in the income statement <sup>(1)</sup>	(73)	–
Fair value (losses)/gains recognised in other comprehensive income <sup>(1)</sup>	–	49
<b>Balance at 31 March 2016</b>	290	296
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>	(73)	–
<b>Balance at 1st April 2016</b>	290	296
Purchases	160	67
Sales	(249)	(21)
Issues	–	–
Settlements	–	(1)
Transfers into Level 3	59	–
Transfers out of Level 3	(17)	(11)
Reclassifications	–	–
Fair value (losses)/gains recognised in the income statement <sup>(1)</sup>	(4)	(23)
Fair value gains recognised in other comprehensive income <sup>(1)</sup>	–	(52)
<b>Balance at 31 March 2017</b>	239	255
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>	1	–

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

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$233 million (2016: \$404 million) and derivative liabilities are \$119 million (2016: \$166 million).

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Assets of disposals group classified as held for sale \$m	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	Derivative financial instruments (net replacement values) <sup>(2)</sup> \$m	Total \$m
COMPANY 2016					
28	153	–	(22)	357	1,258
–	–	–	(45)	73	162
–	(3)	–	8	(351)	(541)
–	–	–	–	–	–
–	7	–	–	9	129
–	(89)	–	–	4	(280)
(25)	(51)	65	–	–	–
(3)	(2)	7	5	146	80
–	–	–	–	–	49
–	15	72	(54)	238	857
–	–	7	5	146	85
COMPANY 2017					
–	15	72	(54)	238	857
–	–	–	–	73	300
–	(5)	(72)	3	(190)	(534)
–	–	–	–	–	–
–	–	–	–	–	(1)
–	–	–	–	4	63
–	–	–	–	(8)	(36)
–	–	–	–	–	–
–	–	–	(5)	(3)	(35)
–	–	–	–	–	(52)
–	10	–	(56)	114	562
–	–	–	(5)	(3)	(7)

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**NOTE 38**

**Fair value of financial assets and financial liabilities continued**

**Significant transfers between levels of the fair value hierarchy**

During the financial year the Consolidated Entity and the Company did not have significant transfers between Level 1 and Level 2.

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

**Unrecognised gains**

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity and the Company 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		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<b>Balance at the beginning of the financial year</b>	<b>111</b>	53	<b>83</b>	1
Deferral on new transactions	<b>67</b>	105	<b>43</b>	105
Amounts recognised in the income statement during the financial year	<b>(51)</b>	(47)	<b>(40)</b>	(23)
<b>Balance at the end of the financial year</b>	<b>127</b>	<b>111</b>	<b>86</b>	<b>83</b>

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**NOTE 38****Fair value of financial assets and financial liabilities continued****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>	CONSOLIDATED 2017			
Equity and equity linked products	3	16	(3)	(9)
Commodities and other products	104	–	(125)	–
<b>Total</b>	<b>107</b>	<b>16</b>	<b>(128)</b>	<b>(9)</b>
<b>Product type</b>	CONSOLIDATED 2016			
Equity and equity linked products	2	10	(2)	(12)
Commodities and other products	199	26	(149)	(18)
<b>Total</b>	<b>201</b>	<b>36</b>	<b>(151)</b>	<b>(30)</b>
<b>Product type</b>	COMPANY 2017			
Equity and equity linked products	2	9	(2)	(2)
Commodities and other products	68	–	(88)	–
<b>Total</b>	<b>70</b>	<b>9</b>	<b>(90)</b>	<b>(2)</b>
<b>Product type</b>	COMPANY 2016			
Equity and equity linked products	11	9	(11)	(11)
Commodities and other products	96	3	(83)	(3)
<b>Total</b>	<b>107</b>	<b>12</b>	<b>(94)</b>	<b>(14)</b>

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**NOTE 38**

**Fair value of financial assets and financial 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
CONSOLIDATED 2017						
Equity and equity linked products	281	20	Discounted cash flows	Discount rate	0.0%	0.0%
			Pricing model	Earnings multiple	–	–
			Market comparability	Price in % <sup>(1)</sup>		
Commodities and other products	793	245	Discounted cash flows	Discount rate	0.0%	0.0%
			Pricing model	Volatility	6.0%	108.0%
				Correlation	10.0%	100.0%
			Market comparability	Price in % <sup>(1)</sup>		
<b>Total</b>	<b>1,074</b>	<b>265</b>				
CONSOLIDATED 2016						
Equity and equity linked products	92	20	Discounted cash flows	Discount rate	10.0%	10.0%
			Pricing model	Earnings multiple	11.6x	11.6x
			Market comparability	Price in % <sup>(1)</sup>		
Commodities and other products	1,770	242	Discounted cash flows	Discount rate	7.0%	20.0%
			Pricing model	Volatility	(51.0%)	200.0%
				Correlation	60.0%	100.0%
			Market comparability	Price in % <sup>(1)</sup>		
<b>Total</b>	<b>1,862</b>	<b>262</b>				

(1) The range of inputs relating to market comparability is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

**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.



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## NOTE 39

### Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis in the statement of financial position when they meet the criteria described in Note 1(xxvi) – Offsetting financial instruments. The following tables provide information on the impact of offsetting that has occurred in the statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting in the statement of financial position. 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 effects on the Consolidated Entity's and Company's financial position in that circumstance is to settle as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended 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 in the statement of financial position		Related amounts not offset <sup>(7)</sup>			Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m			
CONSOLIDATED 2017								
Receivables from financial institutions <sup>(1)</sup>	17,464	–	17,464	(1,069)	(16,131)	264	8,101	25,565
Derivative assets	16,859	(5,339)	11,520	(6,651)	(2,754)	2,115	547	12,067
Other assets <sup>(2)</sup>	4,187	(2,328)	1,859	(29)	–	1,830	4,794	6,653
Loan assets held at amortised cost	632	(28)	604	(65)	–	539	74,946	75,550
Other financial assets at fair value through profit or loss	442	(314)	128	–	–	128	632	760
Due from related body corporate entities	10,748	(9,206)	1,542	–	–	1,542	191	1,733
<b>Total assets</b>	<b>50,332</b>	<b>(17,215)</b>	<b>33,117</b>	<b>(7,814)</b>	<b>(18,885)</b>	<b>6,418</b>	<b>89,211</b>	<b>122,328</b>
Derivative liabilities	(15,334)	5,339	(9,995)	6,651	2,343	(1,001)	(1,106)	(11,101)
Deposits	(575)	219	(356)	65	–	(291)	(57,326)	(57,682)
Other liabilities <sup>(3)</sup>	(4,017)	2,328	(1,689)	29	–	(1,660)	(5,102)	(6,791)
Payables to financial institutions <sup>(4)</sup>	(6,884)	–	(6,884)	1,069	5,565	(250)	(7,352)	(14,236)
Other financial liabilities at fair value through profit or loss	(97)	95	(2)	–	–	(2)	(1,932)	(1,934)
Due to related body corporate entities	(16,509)	9,206	(7,303)	–	–	(7,303)	(64)	(7,367)
Debt issued at amortised cost	(28)	28	–	–	–	–	(43,137)	(43,137)
<b>Total liabilities</b>	<b>(43,444)</b>	<b>17,215</b>	<b>(26,229)</b>	<b>7,814</b>	<b>7,908</b>	<b>(10,507)</b>	<b>(116,019)</b>	<b>(142,248)</b>

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

(2) This balance excludes other non-financial assets of \$1,993 million which is included in Note 9 - Other assets.

(3) This balance excludes other non-financial liabilities of \$2,584 million which is included in Note 21 - Other liabilities.

(4) Included within this balance are repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

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**NOTE 39**

**Offsetting financial assets and financial liabilities continued**

Amounts subject to enforceable netting arrangements

Subject to offsetting in the statement of  
financial position

Related amounts not offset<sup>(7)</sup>

	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
CONSOLIDATED 2016								
Receivables from financial institutions <sup>(1)</sup>	23,261	–	23,261	(265)	(22,310)	686	7,695	30,956
Derivative assets	23,515	(7,114)	16,401	(10,606)	(2,430)	3,365	1,561	17,962
Other assets <sup>(2)</sup>	3,368	(1,988)	1,380	(28)	–	1,352	3,770	5,150
Loan assets held at amortised cost	38	(38)	–	–	–	–	78,913	78,913
Other financial assets at fair value through profit or loss	448	(272)	176	–	–	176	881	1,057
Due from related body corporate entities	22,930	(21,460)	1,470	–	–	1,470	140	1,610
<b>Total assets</b>	<b>73,560</b>	<b>(30,872)</b>	<b>42,688</b>	<b>(10,899)</b>	<b>(24,740)</b>	<b>7,049</b>	<b>92,960</b>	<b>135,648</b>
Derivative liabilities	(21,069)	7,114	(13,955)	10,606	1,571	(1,778)	(758)	(14,713)
Deposits	(314)	263	(51)	–	–	(51)	(52,177)	(52,228)
Other liabilities <sup>(3)</sup>	(3,427)	1,988	(1,439)	28	–	(1,411)	(3,208)	(4,647)
Payables to financial institutions <sup>(4)</sup>	(7,866)	–	(7,866)	265	7,481	(120)	(12,689)	(20,555)
Other financial liabilities at fair value through profit or loss	(9)	9	–	–	–	–	(2,307)	(2,307)
Due to related body corporate entities	(28,966)	21,460	(7,506)	–	–	(7,506)	(49)	(7,555)
Debt issued at amortised cost	(38)	38	–	–	–	–	(55,142)	(55,142)
<b>Total liabilities</b>	<b>(61,689)</b>	<b>30,872</b>	<b>(30,817)</b>	<b>10,899</b>	<b>9,052</b>	<b>(10,866)</b>	<b>(126,330)</b>	<b>(157,147)</b>

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

(2) This balance excludes other non-financial assets of \$1,768 million which is included in Note 9 - Other assets.

(3) This balance excludes other non-financial liabilities of \$2,474 million which is included in Note 21 - Other liabilities.

(4) Included within this balance are repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

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**NOTE 39****Offsetting financial assets and financial liabilities continued**

Amounts subject to enforceable netting arrangements

	Subject to offsetting in the statement of financial position			Related amounts not offset <sup>(7)</sup>		Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m			
COMPANY 2017								
Receivables from financial institutions <sup>(1)</sup>	17,249	–	17,249	(1,057)	(15,928)	264	6,658	23,907
Derivative assets	15,138	(4,792)	10,346	(5,972)	(2,472)	1,902	442	10,788
Other assets <sup>(2)</sup>	3,756	(2,116)	1,640	–	–	1,640	2,858	4,498
Loan assets held at amortised cost	590	–	590	(52)	–	538	52,090	52,680
Other financial assets at fair value through profit or loss	346	(219)	127	–	–	127	467	594
Due from related body corporate entities	9,709	(8,354)	1,355	–	–	1,355	180	1,535
Due from subsidiaries	45,233	(17,222)	28,011	–	–	28,011	3,060	31,071
<b>Total assets</b>	<b>92,021</b>	<b>(32,703)</b>	<b>59,318</b>	<b>(7,081)</b>	<b>(18,400)</b>	<b>33,837</b>	<b>65,755</b>	<b>125,073</b>
Derivative liabilities	(13,721)	4,792	(8,929)	5,972	2,103	(854)	(1,351)	(10,280)
Deposits	(530)	219	(311)	52	–	(259)	(55,987)	(56,298)
Other liabilities <sup>(3)</sup>	(3,565)	2,116	(1,449)	–	–	(1,449)	(3,407)	(4,856)
Payables to financial institutions <sup>(4)</sup>	(6,831)	–	(6,831)	1,057	5,526	(248)	(4,381)	(11,212)
Due to related body corporate entities	(14,263)	8,354	(5,909)	–	–	(5,909)	(50)	(5,959)
Due to subsidiaries	(28,240)	17,222	(11,018)	–	–	(11,018)	(6,462)	(17,480)
<b>Total liabilities</b>	<b>(67,150)</b>	<b>32,703</b>	<b>(34,447)</b>	<b>7,081</b>	<b>7,629</b>	<b>(19,737)</b>	<b>(71,638)</b>	<b>(106,085)</b>

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

(2) This balance excludes other non-financial assets of \$681 million which is included in Note 9 - Other assets.

(3) This balance excludes other non-financial liabilities of \$1,360 million which is included in Note 21 - Other liabilities.

(4) Included within this balance are repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

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**NOTE 39**

**Offsetting financial assets and financial liabilities continued**

Amounts subject to enforceable netting arrangements

	Subject to offsetting in the statement of financial position		Related amounts not offset <sup>(7)</sup>			Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m			
COMPANY 2016								
Receivables from financial institutions <sup>(1)</sup>	23,018	–	23,018	(263)	(22,069)	686	5,277	28,295
Derivative assets	19,903	(6,021)	13,882	(8,977)	(2,057)	2,848	1,255	15,137
Other assets <sup>(2)</sup>	2,456	(1,555)	901	–	–	901	2,690	3,591
Other financial assets at fair value through profit or loss	439	(263)	176	–	–	176	829	1,005
Due from related body corporate entities	12,815	(11,962)	853	–	–	853	179	1,032
Due from subsidiaries	46,102	(19,961)	26,141	–	–	26,141	4,207	30,348
<b>Total assets</b>	<b>104,733</b>	<b>(39,762)</b>	<b>64,971</b>	<b>(9,240)</b>	<b>(24,126)</b>	<b>31,605</b>	<b>14,437</b>	<b>79,408</b>
Derivative liabilities	(17,832)	6,021	(11,811)	8,977	1,330	(1,504)	(1,663)	(13,474)
Deposits	(284)	263	(21)	–	–	(21)	(50,931)	(50,952)
Other liabilities <sup>(3)</sup>	(2,493)	1,555	(938)	–	–	(938)	(2,143)	(3,081)
Payables to financial institutions <sup>(4)</sup>	(7,797)	–	(7,797)	263	7,414	(120)	(9,671)	(17,468)
Due to related body corporate entities	(17,843)	11,962	(5,881)	–	–	(5,881)	(29)	(5,910)
Due to subsidiaries	(26,684)	19,961	(6,723)	–	–	(6,723)	(8,589)	(15,312)
<b>Total liabilities</b>	<b>(72,933)</b>	<b>39,762</b>	<b>(33,171)</b>	<b>9,240</b>	<b>8,744</b>	<b>(15,187)</b>	<b>(73,026)</b>	<b>(106,197)</b>

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

(2) This balance excludes other non-financial assets of \$747 million which is included in Note 9 - Other assets.

(3) This balance excludes other non-financial liabilities of \$1,537 million which is included in Note 21 - Other liabilities.

(4) Included within this balance are repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

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## NOTE 40

### Transfers of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer financial assets recognised in the statement of financial position to other entities. Depending on the criteria discussed in Note 1 (ix) – Recognition and derecognition of financial assets and financial liabilities the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of continuing involvement.

#### Transferred financial assets that are derecognised

When financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. For the financial years ending 31 March 2017 and 31 March 2016, there were no material transfers of financial assets where the Consolidated Entity or Company retained continuing involvement in the transferred asset.

#### Transferred financial assets that are not derecognised

The Consolidated Entity and the Company did not recognise financial assets only to the extent of continuing involvement in the years ending 31 March 2017 and 31 March 2016. The following transactions typically result in the transferred assets continuing to be recognised in full.

### Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised in 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 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 and Company do not have legal rights to these assets but have 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 Company is entitled to any residual income of a securitisation vehicle, the Company continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

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**NOTE 40**

**Transfers of financial assets continued**

	Carrying amount of transferred assets \$m	Carrying amount of associated liabilities \$m	For those liabilities that only have recourse to the transferred assets		
			Fair Value of transferred assets \$m	Fair Value of associated liabilities \$m	Net Fair value \$m

CONSOLIDATED 2017

**Financial assets not derecognised due to repurchase and securities lending agreements:**

Trading portfolio assets	4,812	(4,930)	–	–	–
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**Financial assets not derecognised due to total return/asset swaps:**

Investment securities available for sale	509	(475)	–	–	–
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**Other financial assets not derecognised:**

Loan assets held at amortised cost	457	(457)	467	(457)	10
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<b>Total financial assets not derecognised</b>	<b>5,778</b>	<b>(5,862)</b>	<b>467</b>	<b>(457)</b>	<b>10</b>
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CONSOLIDATED 2016

**Financial assets not derecognised due to repurchase and securities lending agreements:**

Trading portfolio assets	3,133	(3,044)	–	–	–
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Investment securities available for sale	408	(408)	–	–	–
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Loan assets held at amortised cost	811	(884)	817	(884)	(67)
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**Financial assets not derecognised due to total return/asset swaps:**

Loan assets held at amortised cost	175	(124)	163	(163)	–
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Investment securities available for sale	479	(506)	–	–	–
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**Other financial assets not derecognised:**

Loan assets held at amortised cost	123	(123)	123	(123)	–
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<b>Total financial assets not derecognised</b>	<b>5,129</b>	<b>(5,089)</b>	<b>1,103</b>	<b>(1,170)</b>	<b>(67)</b>
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**NOTE 40****Transfers of financial assets continued**

The following table presents information about transfers of financial assets recognised by the Company as at 31 March 2017 and 31 March 2016:

	Carrying amount of transferred assets \$m	Carrying amount of associated liabilities \$m	For those liabilities that only have recourse to the transferred assets		
			Fair Value of transferred assets \$m	Fair Value of associated liabilities \$m	Net Fair value \$m
COMPANY 2017					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	4,812	(4,930)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	509	(475)	–	–	–
<b>Financial assets not derecognised due to other:</b>					
Loan assets held at amortised cost	241	(241)	241	(241)	–
<b>Financial assets not derecognised due to securitisation:</b>					
Loan assets held at amortised cost	24,086	(24,086)	24,086	(23,460)	626
<b>Total financial assets not derecognised</b>	<b>29,648</b>	<b>(29,732)</b>	<b>24,327</b>	<b>(23,701)</b>	<b>626</b>
COMPANY 2016					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	3,133	(3,044)	–	–	–
Investment securities available for sale	408	(408)	–	–	–
Loan assets held at amortised cost	811	(884)	817	(884)	(67)
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	492	(467)	–	–	–
<b>Financial assets not derecognised due to securitisation:</b>					
Loan assets held at amortised cost	24,491	(24,491)	24,491	(24,358)	133
<b>Total financial assets not derecognised</b>	<b>29,335</b>	<b>(29,294)</b>	<b>25,308</b>	<b>(25,242)</b>	<b>66</b>

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**NOTE 41**

**Audit and other services provided by PricewaterhouseCoopers**

During the financial year, the auditor of the Consolidated Entity and the Company, PwC, and its network firms earned the following remuneration:

	CONSOLIDATED		COMPANY	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>PwC – Australia</b>				
Audit of the Group and controlled entities	7,659	7,387	6,627	6,391
Other assurance services <sup>(1)</sup>	2,729	2,128	1,060	290
Advisory services	32	23	–	–
Taxation	168	68	–	–
<b>Total non-audit services</b>	<b>2,929</b>	<b>2,219</b>	<b>1,060</b>	<b>290</b>
<b>Total remuneration paid to PwC Australia</b>	<b>10,588</b>	<b>9,606</b>	<b>7,687</b>	<b>6,681</b>
<b>Network firms of PwC Australia</b>				
Audit of the Group and controlled entities	9,342	9,286	2,364	2,350
Other assurance services <sup>(1)</sup>	161	241	–	–
Advisory services	268	130	–	–
Taxation	1,293	2,342	–	–
<b>Total non-audit services</b>	<b>1,722</b>	<b>2,713</b>	<b>–</b>	<b>–</b>
<b>Total remuneration paid to network firms of PwC Australia</b>	<b>11,064</b>	<b>11,999</b>	<b>2,364</b>	<b>2,350</b>
<b>Total Audit Services remuneration paid to PwC</b>	<b>17,001</b>	<b>16,673</b>	<b>8,991</b>	<b>8,741</b>
<b>Total Non-Audit Services remuneration paid to PwC</b>	<b>4,651</b>	<b>4,932</b>	<b>1,060</b>	<b>290</b>
<b>Total remuneration paid to PwC (Note 2)</b>	<b>21,652</b>	<b>21,605</b>	<b>10,051</b>	<b>9,031</b>

(1) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include regulatory compliance, due diligence, accounting advice and review of controls and procedures.

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Company's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects.



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## NOTE 42

### Acquisitions and disposals of subsidiaries and businesses

#### Significant or other entities or businesses acquired or consolidated due to acquisition of control:

There were no significant or other 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:

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

There were no significant entities or businesses acquired or consolidated due to acquisition of control in the 31 March 2016 comparatives.

Other entities acquired or consolidated due to acquisition of control in the 31 March 2016 comparatives are as follows:

AWAS Aviation Capital Portfolio, Esanda Dealer Finance Portfolio, Energetics Topco Limited and Advantage Funding Management Co. Inc.

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**NOTE 42**

**Acquisitions and disposals of subsidiaries and businesses continued**

**Significant or other entities or 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:**

Macquarie Life's risk insurance business, International Life Solutions Proprietary Limited and US Mortgages.

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

	2017 \$m	2016 \$m
<b>Carrying value of assets and liabilities disposed of or deconsolidated</b>		
Receivables from financial institutions	36	106
Trading portfolio assets	77	–
Other assets	131	339
Loan assets held at amortised cost	427	–
Other financial assets at fair value through profit or loss	–	114
Property, plant and equipment	–	32
Interests in associates and joint ventures accounted for using the equity method	–	71
Intangible assets	–	573
Other liabilities	(126)	(795)
<b>Total carrying value of net assets disposed of or deconsolidated</b>	<b>545</b>	<b>440</b>
<b>Consideration</b>		
Cash consideration	768	1,352
Consideration receivable	1	–
<b>Total consideration</b>	<b>769</b>	<b>1,352</b>
Direct costs relating to disposal	(21)	–
<b>In-specie distribution</b>	<b>–</b>	<b>131</b>
<b>Net cash flow</b>		
Cash consideration	768	1,352
Less: Cash and cash equivalents disposed of or deconsolidated	(36)	–
Cash outflow on direct costs related to disposal	(10)	–
<b>Net cash inflow</b>	<b>722</b>	<b>1,352</b>

The 31 March 2016 comparatives principally relate to the following entities or businesses disposed of or deconsolidated due to loss of control: Macquarie Almond Orchard business, MIM business and Vineyard business.

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## NOTE 43

### Discontinued operations

During the financial year 2016, the Consolidated Entity had disposed of its Macquarie Investment Management (MIM) business to the Macquarie Financial Holdings Pty Limited Group which is a fully owned subsidiary of the Macquarie Group. Before the disposal of MIM, the business was previously operating within the MAM operating segment and offering asset and wealth management services within the products and services segment. MIM offers investment management expertise across a number of asset classes including fixed interest, credit and currencies, equities, infrastructure securities and multi-asset allocation solutions. MIM delivers a full-service offering to both retail and institutional clients in Australia and the US, with selective offerings in other regions.

#### (i) Income statement and cash flow information

	CONSOLIDATED		COMPANY	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Net operating income/(expense)	-	71	-	(8)
Total operating expenses	-	(30)	-	(14)
Operating profit before income tax	-	41	-	(22)
Gain on disposal	-	1,009	-	655
Profit/(loss) from discontinued operations before income tax	-	1,050	-	633
Income tax (expense)/benefit	-	(10)	-	8
<b>Profit from discontinued operations (net of income tax)<sup>(1)</sup></b>	<b>-</b>	<b>1,040</b>	<b>-</b>	<b>641</b>
Cash flow from operating activities	-	31	-	-
Cash flow from/(used in) investing activities	-	-	-	-
Cash flow used in financing activities	-	(184)	-	-
<b>Net decrease in cash and cash equivalents</b>	<b>-</b>	<b>(153)</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>-</b>	<b>153</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(1) Profit from discontinued operations includes income and expenses recorded in the Corporate segment that relate to MIM and its subsidiaries.

## NOTE 44

### Events after the reporting date

There were no material events subsequent to 31 March 2017 that have not been reflected in the financial statements.

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**MACQUARIE BANK LIMITED**  
**DIRECTORS' DECLARATION**

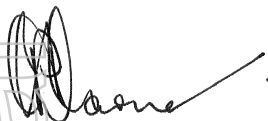
In the Directors' opinion:

- a) the financial statements and notes set out on pages 49 to 169 are in accordance with the *Corporations Act 2001* (Cth), including:
- (i) complying with the Australian accounting standards, and
  - (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2017 and their performance for the financial year ended on that date, and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(i) includes a statement that the Financial Report complies with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO and CFO 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



**Mary Reemst**

Managing Director and Chief Executive Officer

Sydney

5 May 2017

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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MACQUARIE BANK LIMITED

### REPORT ON THE AUDIT OF THE FINANCIAL REPORT

#### Our opinion

In our opinion, the accompanying financial report of Macquarie Bank Limited (the Company) and its controlled entities (together the 'Consolidated Entity') is in accordance with the *Corporations Act 2001* (Cth), including:

- giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 31 March 2017 and of their financial performance for the year then ended; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

#### What we have audited

Macquarie Bank Limited's financial report comprises:

- the Company and the Consolidated Entity statements of financial position as at 31 March 2017
- the Company and the Consolidated Entity income statements for the year then ended
- the Company and the Consolidated Entity statements of comprehensive income for the year then ended
- the Company and the Consolidated Entity statements of changes in equity for the year then ended
- the Company and the Consolidated Entity statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies, and
- the directors' declaration.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial report section of our report.

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

#### Independence

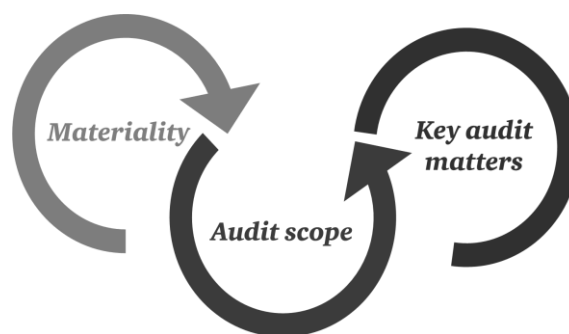
We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

#### Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

The Consolidated Entity is structured into four global operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram, Jacksonville and Manila which undertake operational activities that are important to the financial reporting processes. The Consolidated Entity's financial report is a consolidation of the four global operating groups and the corporate segment.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Consolidated Entity, its accounting processes and controls, and the industry in which it operates.



#### Consolidated Entity materiality

For the purpose of our Consolidated Entity audit we used overall materiality of \$110 million, which represents approximately 1% of the Consolidated Entity's net assets. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose net assets as the benchmark and, in our view, as the Consolidated Entity is a wholly owned subsidiary with listed debt, net assets represents an important benchmark against which the performance of the Consolidated Entity is measured by relevant stakeholders. We selected 1% based on our professional judgement, noting it is within the range of commonly accepted thresholds.

#### Consolidated Entity audit scope

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial report, including areas where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the Consolidated Entity, including those arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of key controls.

We aligned our audit to the Consolidated Entity's structure by instructing a divisional audit team for each of the four global operating groups and the corporate segment. These divisional audit teams established an audit strategy tailored for each operating group and the corporate segment, in consultation with the central audit team.

Given the extent of the overseas operations of the Consolidated Entity, the divisional audit teams instructed a number of audit teams in overseas locations to perform audit procedures ranging



from an audit of financial information to specified risk focussed audit procedures. The central audit team determined the level of supervision and direction it needed to have over the audit work performed by the divisional audit teams, including over the divisional audit teams' review and supervision of the overseas audit teams they, in turn instructed. As part of the overall supervision of our audit and to develop our understanding of the Consolidated Entity's global operations, the central audit team or the divisional audit teams also visited overseas locations, including Gurugram, Houston, Jacksonville, London, Manila, New York, San Francisco and Singapore.

The work performed by the divisional audit teams and the overseas audit teams, together with additional audit procedures performed by the central audit team such as procedures over the Consolidated Entity consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity financial report as a whole.

#### Key audit matter

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We have communicated the key audit matters to the Board Audit Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. The key audit matters identified below relate to both the Company and the Consolidated Entity audits conducted.

#### How our audit addressed the key audit matter

### Provisions for loan losses

#### Refer to Note 10

The Consolidated Entity holds both specific and collective impairment provisions over loan assets. Specific impairment provisions are created when the impairment of an individual loan is recognised. The collective impairment provision is intended to cover losses in the existing overall loan portfolio which have not yet been individually identified.

The identification of loans that are deteriorating and the assessment of the present value of expected future cash flows in determining specific impairment provisions are inherently uncertain, involving various assumptions and judgments.

In estimating the collective impairment provisions, judgement is required in the design of the models used and the selection of assumptions adopted, such as the estimate of the likelihood of default and the potential loss given default. A management overlay is also included in the overall collective provision to reflect emerging trends or particular situations which are not captured by these models.

Given the extent of judgment involved, we considered this to be a key audit matter.

Our procedures included evaluating and testing certain controls relating to the timely recognition and measurement of impairments for loan losses.

For specific loan loss provisions, we examined a sample of individual loan exposures. We applied judgment in selecting this sample, including consideration of sectors that may pose an increased risk of uncertainty, including oil and gas, commodities and certain geographic regions of the Australian property market. We also evaluated a sample of loan assets written off or disposed of to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately estimate specific loan loss provisions. For the collective provisions, assisted by our experts, we tested on a sample basis:

- the appropriateness of design and use of models used by the Consolidated Entity, and
- the appropriateness of the assumptions adopted and data used in the models, by our knowledge of industry developments and the actual loss experience of the Consolidated Entity.

We also examined and assessed the analysis performed by the Consolidated Entity in determining the management overlay.

We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.

### Valuation of financial assets and liabilities held at fair value

#### Refer to Note 38

The Consolidated Entity exercises judgement in valuing certain assets and liabilities at fair value where there is limited supporting external evidence. Under Australian Accounting Standards, these items are classified as Level 3 financial instruments when their valuation is determined using models which use significant unobservable inputs. Unobservable inputs are those for which regularly traded market prices or readily comparable fair values are not available.

For the Consolidated Entity, these Level 3 financial instruments predominantly consist of derivatives and unlisted equity and debt investments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs.

Given the extent of judgement involved in valuing these Level 3

Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over:

- approval and validation of the models adopted
- accuracy of data feeds and inputs to models
- the Consolidated Entity's process for testing valuations, and
- governance and review.

For derivatives, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by our valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations.

For a sample of unlisted equity and debt investments, we assessed the appropriateness of the valuation methodologies

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 Statements of comprehensive income  
 Statements of financial position  
 Statements of changes in equity  
 Statements of cash flows  
 Notes to the financial statements  
 Directors' declaration  
 Independent auditor's report



Key audit matter	How our audit addressed the key audit matter
<p>financial instruments, we considered this to be a key audit matter.</p>	<p>applied, and assessed the sensitivity of the Consolidated Entity's valuations to alternative methodologies and assumptions where appropriate. We also evaluated a sample of disposals to assess, with the benefit of hindsight, the Consolidated Entity's ability to estimate fair values.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.</p>
<p><b>Impairment of aircraft assets and recognition and measurement of supplemental income and maintenance liabilities Refer to Note 2, 13 and 21</b></p>	
<p>The Consolidated Entity holds a portfolio of aircraft assets which it leases to various airlines. At year end, the Consolidated Entity considered whether there were any indicators that these assets might be impaired. The Consolidated Entity then also compared the carrying amount of individual aircraft assets to the higher of their value-in-use and fair value less costs of disposal.</p> <p>Value-in-use is the calculation of the net present value of the cash flows expected from the Consolidated Entity's use of an aircraft. This calculation requires an estimation of the expected future cash flows associated with the use of an aircraft and its eventual sale. The Consolidated Entity also obtains independent valuation reports for certain aircraft held by the Consolidated Entity from external appraisers to assist in developing their estimates of the value-in-use and fair value less cost of disposal.</p> <p>Under these aircraft leases, certain lessees are obliged to maintain the condition of the aircraft at specified standards. As part of this arrangement, these lessees make additional payments to the Consolidated Entity based on aircraft utilisation, which are recorded as supplemental income. In some cases, these payments are deferred until the end of the lease. The Consolidated Entity also estimates and accrues for the liability for major maintenance events expected to occur during the lease.</p> <p>Given the extent of judgement required in respect of impairment, and the recognition and measurement of supplemental income and maintenance liabilities over the term of the associated lease, we considered this to be a key audit matter.</p>	<p>Our procedures in relation to impairment included updating our understanding of prevailing market conditions and factors that could materially affect the fair value and usage of aircraft assets, and considering whether these may represent indicators of impairment.</p> <p>Our procedures also included:</p> <ul style="list-style-type: none"> <li>– evaluating the appropriateness of the impairment assessment methodology and selected assumptions in the value-in-use calculations</li> <li>– assessing the competency, capability and objectivity of external appraisers, as well as the appropriateness of methodologies and assumptions used by the appraisers, and</li> <li>– comparing the realised value of certain aircraft sold during the year against the carrying value to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately make estimates.</li> </ul> <p>Our procedures with respect to the recognition and measurement of supplemental income and expense relating to aircraft maintenance included:</p> <ul style="list-style-type: none"> <li>– performing a retrospective review of a sample of end of lease settlements against projections to assess, with the benefit of hindsight, the Consolidated Entity's ability to estimate supplemental income</li> <li>– evaluating the appropriateness of the maintenance reserve accrual methodology and selected assumptions and inputs used.</li> </ul> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>
<p><b>IT systems and controls over financial reporting</b></p>	
<p>The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include:</p> <ul style="list-style-type: none"> <li>– the framework of governance over IT systems</li> <li>– controls over program development and changes</li> <li>– access to programs, data and IT operations, and</li> <li>– governance over generic and privileged user accounts.</li> </ul> <p>Given the reliance on the IT systems in the financial reporting process, we considered this to be a key audit matter.</p>	<p>Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.</p> <p>We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.</p> <p>When considered appropriate we performed alternative audit procedures on the financial information that was key to our audit testing produced by the IT systems.</p>
<p><b>Provisions for tax payable and deferred tax liabilities</b>  <b>Refer to Note 18 and 21</b></p>	
<p>The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration</p>	<p>Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to tax authorities.</p>

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**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF MACQUARIE BANK LIMITED**  
CONTINUED

Key audit matter	How our audit addressed the key audit matter
<p>given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid.</p> <p>Given the extent of judgement involved, we considered this to be a key audit matter.</p>	<p>We used our understanding of the business, assisted by PwC tax experts and perused a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity to challenge the completeness and quantum of the provisions for tax. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>

**Other information**

The directors are responsible for the other information. The other information comprises Operating and Financial Review, Directors' Report, Additional Investor Information and Glossary included in the Consolidated Entity's annual report for the year ended 31 March 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

For preparation



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### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_files/ar1.pdf](http://www.auasb.gov.au/auditors_files/ar1.pdf) for the Company and at [www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf) for the Consolidated Entity. This description forms part of our audit report.

**PricewaterhouseCoopers**

**K.G. Smith**

Partner

Sydney

5 May 2017

Liability limited by a scheme approved under Professional Standards Legislation.

### REPORT ON THE REMUNERATION REPORT

#### Our opinion on the remuneration report

We have audited the remuneration report included in pages 27 to 45 of the Directors' Report for the year ended 31 March 2017.

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2017 complies with section 300A of the *Corporations Act 2001* (Cth).

#### Responsibilities

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

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# FURTHER INFORMATION

Additional Investor Information  
Glossary

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## ADDITIONAL INVESTOR INFORMATION

### SHAREHOLDER CALENDAR

#### 2017

Date	Event
17 July	Payment date for MIS distribution
27 July	AGM
25 September	Payment date for BCN distribution
30 September	Financial half-year end
16 October	Payment date for MIS distribution
27 October <sup>(1)</sup>	Half-year result announcement

#### 2018

Date	Event
15 January	Payment date for MIS distribution
26 March	Payment date for BCN distribution
31 March	Financial year end
16 April	Payment date for MIS distribution

### 2017 ANNUAL GENERAL MEETING

Macquarie Bank Limited's 2017 Annual General Meeting (AGM) will be held in the Conference Room of Macquarie's Melbourne Office, Level 23, 101 Collins Street, Melbourne Victoria 3000, after the MGL AGM but not before 2:00pm on Thursday, 27 July 2017. Details of the business of the meeting will be forwarded to shareholders separately.

### DISTRIBUTION DETAILS

#### Macquarie Bank Limited

MBL makes distribution payments twice annually in arrears in respect of the BCN on or about 24 March and September each year.

#### Macquarie Finance Limited

MFL makes interest payments quarterly in arrears in respect of MIS on or about 15 January, April, July and October each year.

Dates and payment rates are listed at [macquarie.com/investors](http://macquarie.com/investors)

### STOCK EXCHANGE LISTING

Hybrid security	Stock exchange listing	Trading code
Macquarie Income Securities (MIS)	ASX	MBLHB
Macquarie Bank Capital Notes (BCN)	ASX	MBLPA
Macquarie Exchangeable Capital Securities (Macquarie ECS)	Singapore Stock Exchange (SGX)	2AQB
Macquarie Additional Capital Securities (MACS)	SGX	6F6B

Macquarie Bank also has debt securities quoted on the London Stock Exchange, Luxembourg Stock Exchange (LuxSE), SIX Swiss Exchange (Switzerland), SGX, Tokyo Stock Exchange and the Taipei Exchange (GreTai Securities Market). Macquarie Bank also has warrants quoted on the LuxSE, SGX, Hong Kong Stock Exchange and the ASX.

### SECURITIES ON ISSUE

The following information is correct as at 31 March 2017.

#### Fully paid ordinary shares

##### 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 proxy, attorney or corporate representative of a member has one vote and on a poll every member present in person or by proxy, attorney or corporate representative has:

- one vote for each fully paid share held by the member, and
- that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

#### Macquarie Income Securities

##### Voting Rights

Holders of MIS, as holders of a stapled security that includes a preference share, have the right to vote at any general meeting of members of MBL only in one or more of the following circumstances and in no others:

- during a period when two consecutive Semi-Annual Dividends (as defined in the preference share terms) due and payable on the preference shares have not been paid in full, and no optional Dividend (as defined in the preference share terms) has been paid
- on any proposal to reduce MBL's share capital
- on any resolution to approve the terms of a buy-back agreement
- on any proposal that affects the rights attaching to the preference shares
- on a proposal to wind up MBL
- on any proposal for the disposal of the whole of MBL's property, business and undertaking
- during the winding up of MBL.

In these circumstances, holders of MIS have the same rights as to attendance and voting (in respect of each preference share) as those conferred on holders of ordinary shares of MBL.

(1) These dates are subject to change.

**20 largest holders**

Registered holder	Number of MIS held	% of MIS
HSBC Custody Nominees (Australia) Limited	400,817	10.02
National Nominees Limited	134,335	3.36
JP Morgan Nominees Australia Limited	84,052	2.10
Navigator Australia Ltd <MLC Investment Sett A/C>	75,719	1.89
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	64,680	1.62
IOOF Investment Management Limited <IPS Super A/C>	55,629	1.39
BNP Paribas Noms Pty Ltd <DRP>	45,651	1.14
Jilliby Pty Ltd	34,984	0.87
Aust Executor Trustees Ltd <DDH Preferred Income Fund>	32,196	0.80
Citicorp Nominees Pty Limited	30,211	0.76
Bond Street Custodians Limited <CAJ - D09461 A/C>	25,000	0.63
Twenty Second Natro Pty Ltd <CAP Superannuation Fund A/C>	20,000	0.50
Australian Executor Trustees Limited <No 1 Account>	16,825	0.42
Argo Investments Limited	15,000	0.38
Catholic Church Endowment Society Inc	15,000	0.38
Pullington Investments Pty Ltd	15,000	0.38
Mrs Sharon Nicole Aldenton	14,924	0.37
JGW Investments Pty Ltd	13,500	0.34
HSBC Custody Nominees (Australia) Limited - A/C 2	12,491	0.31
UBS Nominees Pty Ltd <TP00014 10 A/C>	12,388	0.31
<b>Total</b>	<b>1,118,402</b>	<b>27.96</b>

**Spread of securityholdings**

Range	Number of MIS holders	Number of MIS
1 – 1,000	5,416	1,598,886
1,001 – 5,000	503	980,739
5,001 – 10,000	20	603,424
10,001 – 100,000	2	535,152
100,001 securities and over	37	281,799
<b>Total</b>	<b>5,978</b>	<b>4,000,000</b>

There were 6 securityholders (representing 14 MIS) who held less than a marketable parcel.

**ADDITIONAL INVESTOR INFORMATION**

CONTINUED

**Macquarie Bank Capital Notes (BCN)****Voting Rights**

BCN are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible. BCN holders have no voting rights in respect of MBL or MGL.

**20 largest holders**

Registered holder	Number of BCN held	% of BCN
Navigator Australia Ltd <MLC Investment Sett A/C>	133,107	3.10
HSBC Custody Nominees (Australia) Limited	115,296	2.68
IOOF Investment Management Limited <IPS Super A/C>	86,839	2.02
Citicorp Nominees Pty Limited	82,256	1.92
Netwealth Investments Limited <Wrap Services A/C>	81,351	1.89
BNP Paribas Noms Pty Ltd <DRP>	77,874	1.81
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	69,488	1.62
JP Morgan Nominees Australia Limited	61,972	1.44
Mr Zhiliang Yang	60,000	1.40
National Nominees Limited	48,075	1.12
RBC Investor Services Australia Nominees Pty Limited <Multiport A/C>	41,954	0.98
Netwealth Investments Limited <Super Services A/C>	40,991	0.95
Federation University Australia	25,826	0.60
Mutual Trust Pty Ltd	23,930	0.56
Pacific Development Corporation Pty Ltd	22,600	0.53
Pelatron Pty Ltd	22,500	0.52
IOOF Investment Management Limited <IPS IDPS A/C>	19,285	0.45
VIP Finance Pty Ltd	18,000	0.42
HSBC Custody Nominees (Australia) Limited - A/C 2	17,456	0.41
Australian Executor Trustees Limited <No 1 Account>	15,491	0.36
<b>Total</b>	<b>1,064,291</b>	<b>24.78</b>

**Spread of noteholdings**

Range	Number of BCN holders	Number of BCN
1 – 1,000	5,756	1,902,834
1,001 – 5,000	472	988,002
5,001 – 10,000	25	902,866
10,001 – 100,000	2	248,403
100,001 notes and over	30	252,000
<b>Total</b>	<b>6,285</b>	<b>4,294,105</b>

There were 3 noteholders (representing 7 BCN) who held less than a marketable parcel.

**Macquarie Income Preferred Securities (MIPS)****Voting Rights**

Unpaid preference shares were issued by MBL as part of the MIPS issue. MIPS have now been fully redeemed, although the unpaid preference shares remain on issue and are held by Macquarie B.H. Pty Limited, the immediate parent of MBL. While these preference shares remain unpaid, they have no voting rights in respect of meetings of members of MBL. If paid up, these preference shares will have the same voting rights as holders of MIS, except that instead of having a right to vote in situation i) above, they have a right to vote at any general meeting of members of MBL during a period in which a dividend has been declared on the preference shares but the dividend has not been paid in full by the relevant dividend payment date.

**Register of holders**

MBL issued convertible debentures and 350,000 unpaid preference shares as part of the MIPS. The convertible debentures were fully redeemed on 22 June 2015. The unpaid preference shares are held by Macquarie B.H. Pty Limited. The register in respect of the preference shares is kept at MBL's principal administrative office at 50 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

**Macquarie Additional Capital Securities (MACS)****Voting Rights**

MACS are unsecured subordinated notes issued by MBL, acting through its London Branch that may be exchanged for MGL ordinary shares in certain limited circumstances. MACS holders have no voting rights in respect of meetings of members of MBL and have no voting rights in respect of meetings of members of MGL in the absence of such an exchange.

**Single Shareholder**

As at 31 March 2017, the \$US250 million of MACS were held by one holder, Cede & Co, as authorised representative for the Depository Trust Company being the common depository for the MACS global security. The Bank of New York Mellon as Registrar keeps the register in respect of MACS.

**Macquarie Exchangeable Capital Securities (Macquarie ECS)****Voting Rights**

Macquarie ECS are Exchangeable Capital securities issued by MBL, acting through its London Branch. They may convert into a variable number of MGL 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 meetings of members of MBL and have no voting rights in respect of meetings of members of MGL prior to conversion.

**ENQUIRIES****Share Registry**

Investors who wish to enquire about any administrative matter relating to their MIS or BCN securityholding are invited to contact the Share Registry at:

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000 Australia  
Telephone: +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 related to a MIS or BCN holding can be directed to:

**Investor Relations:**

Macquarie Group  
Level 6, 50 Martin Place  
Sydney NSW 2000 Australia  
Telephone: +61 2 8232 3333  
Email: [macquarie.shareholders@macquarie.com](mailto:macquarie.shareholders@macquarie.com)  
Website: [macquarie.com/investors](http://macquarie.com/investors)

Macquarie Bank's Company Secretary, Dennis Leong, can be contacted on the above number and email address.

**Website**

 To view the Annual Reports, presentations, distribution information and other investor information is available at [macquarie.com/investors](http://macquarie.com/investors)

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## GLOSSARY

Defined term	Definition	Defined term	Definition
<b>A</b>		<b>C</b>	
AASB	Australian Accounting Standards Board	CAF	Corporate and Asset Finance Group
the Act	Corporations Act 2001 (Cth)	CAGR	compound annual growth rate
ADI	authorised deposit-taking institution	Central Service Groups	the Central Service Groups consist of RMG, LGL, FMG and COG
AGM	Annual General Meeting	CEO	Managing Director and Chief Executive Officer
AICD	Australian Institute of Company Directors	CGM	Commodities and Global Markets Group
AMA	Advanced Measurement Approach	CFO	Chief Financial Officer
Annual Report	MBL's 2017 Annual Report	COG	Corporate Operations Group
ANZ	Australia and New Zealand	the Company, MBL	Macquarie Bank Limited ABN 46 008 583 542
APRA	Australian Prudential Regulation Authority	Comparable Key Management Personnel (Comparable KMP)	Executive KMP who were members of the Executive Committee for the full year in both FY2017 and FY2016
ASIC	Australian Securities & Investments Commission	the Consolidated Entity, Macquarie Bank	MBL and its subsidiaries
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited	Corporate	head office and central support functions including Group Treasury
ATO	Australian Taxation Office	CRO	Chief Risk Officer
<b>B</b>		CVA	credit valuation adjustments
BAC	Board Audit Committee	<b>D</b>	
Bank Group	MBL and its subsidiaries	Deed	Deed of Access, Indemnity, Insurance and Disclosure
Banking Group	the Banking Group comprises BFS, CAF and certain business activities of CGM and MAM	Deed Poll	Indemnity and Insurance Deed Poll dated 12 September 2007
BBSW	Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR, etc	Directors	the Voting Directors of MBL (unless the context indicates otherwise)
BCN	Macquarie Bank Capital Notes	Divisions	named divisions within the Macquarie Group
BFS	Banking and Financial Services Group	DPS Plan	Deferred Profit Share Plan
the Board, Macquarie Bank Board	The Board of Voting Directors of Macquarie Bank Limited	DSU	Deferred Share Unit issued under the MEREP
BRC	Board Remuneration Committee	DVA	debit valuation adjustments
BRiC	Board Risk Committee		
Businesses	the areas within the Operating Groups carrying out various operations		



Defined term	Definition	Defined term	Definition
<b>E</b>		<b>M</b>	
ECAM	Economic Capital Adequacy Model	Macquarie Bank, the Consolidated Entity	MBL and its subsidiaries
ECL	expected credit losses	MBL, the Company	Macquarie Bank Limited ABN 46 008 583 542
ECS, Macquarie ECS	Macquarie Exchangeable Capital Securities	Macquarie Board, the Board	the Board of Voting Directors of MGL
EMEA	Europe, Middle East and Africa	Macquarie ECS, ECS	Macquarie Exchangeable Capital Securities
EPS	earnings per share	MGL ordinary shares, MQG	MGL fully paid ordinary shares
ESP	Macquarie Group Employee Share Plan	Macquarie Group	MGL and its subsidiaries
Executive Director	Macquarie Group's most senior employees including Group Heads, Division Heads and senior business unit managers	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 the Macquarie Group significant reputational harm, caused a significant or unexpected financial loss or caused the Macquarie Group to make a material financial restatement
Executive Key Management Personnel (Executive KMP)	Members of the Executive Committee of MBL	MAM	Macquarie Asset Management Group
Executive Voting Director	an executive board member	Management	Division Directors and Executive Directors who have management or risk responsibility for a Division or business area
<b>F-H</b>		MBHPL	Macquarie B.H. Pty Limited
FIRB	Foundation Internal Ratings Based Approach	MCN	Macquarie Group Capital Notes
FMG	Financial Management Group	MCN2	Macquarie Group Capital Notes 2
FVA	funding value adjustment	MEREP	Macquarie Group Employee Retained Equity Plan
<b>I-J</b>		MFHPL	Macquarie Financial Holdings Pty Limited
IASB	International Accounting Standards Board	MFHPL Consolidated Entity	MFHPL and its subsidiaries
ICAAP	Internal Capital Adequacy Standards Board	MFL	Macquarie Finance Limited
IFRS	International Financial Reporting Standards	MFL Note	An unsecured debt obligation of MFL, issued to a trustee on behalf of the holders of the MIS
IT	information technology	MGESOP	Macquarie Group Employee Share Option Plan
<b>K</b>		MGL	Macquarie Group Limited, ABN 94 122 169 279
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of MBL		
<b>L</b>			
LMI	lender's mortgage insurance		
LuxSE	Luxembourg Stock Exchange		
LVRs	loan to value ratios		

## GLOSSARY

### CONTINUED

Defined term	Definition	Defined term	Definition
<b>M</b>		<b>R</b>	
MGSA	Macquarie Group Services Australia Pty Limited	RAS	Risk Appetite Statement
MGSSAP	Macquarie Group Staff Share Acquisition Plan	RMG	Risk Management Group
MIM	Macquarie Investment Management	ROE	return on ordinary equity
MIPS	Macquarie Income Preferred Securities	RSU	Restricted Share Unit issued under the MEREP
MiS	Macquarie Income Securities	<b>S</b>	
<b>N</b>		Senior Executive	Macquarie Group's combined Division Director and Executive Director population
NCD	negotiable certificates of deposit	Senior Management	Members of Macquarie Group's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation
NCI	non-controlling interests	SEs	structured entities
NED	Non-Executive Director	SFE	Sydney Futures Exchange
Non-Bank Group	MGL, MFHPL and its subsidiaries	SGX	Singapore Stock Exchange
Non-Banking Group	The Non-Banking Group comprises Macquarie Capital and some business activities of MAM and CGM that use certain offshore regulated entities of the Non-Banking Group	SPE	Special Purpose Entity
NPAT	net profit after tax	Statutory Remuneration	statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and as disclosed throughout the Remuneration Report
<b>O</b>		SYD	ASX-listed Sydney Airport
OCI	other comprehensive income	SYD Distribution	in-specie distribution of Sydney Airport stapled securities to MGL ordinary shareholders on 13 January 2014
OECD	Organisation for Economic Co-operation and Development	SYD Securities	SYD stapled securities
Operating Groups	The Operating Groups consist of MAM, CAF, BFS, CGM and Macquarie Capital	<b>T-U</b>	
OTC	over-the-counter	TSR	total shareholder return
<b>P</b>		<b>V</b>	
Post-2009 DPS	retained profit share which is deferred to future periods and held as a notional investment in Macquarie Group managed-fund equity	VaR	Value-at-Risk
PSU	Performance Share Unit issued under the MEREP	Voting Directors	the Voting Directors of MBL as defined in the MBL Constitution
PwC	PricewaterhouseCoopers	<b>W-Z</b>	
		WHS	Work Health and Safety
		WHSE	work health, safety and environmental

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