# Macquarie Bank Limited

**(ABN 46 008 583 542)**

Management Discussion and Analysis
for the fiscal year ended
31 March 2017

## Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Bank Limited Disclosure Report (U.S. Version) for the fiscal year ended 31 March 2017 and the Financial Report within the Macquarie Bank Annual Report ("the Financial Report") for the year ended 31 March 2017, including further detail in relation to key elements of Macquarie Bank Limited and its subsidiaries' ("Macquarie Bank", "the Consolidated Entity") financial performance and financial position. The report also outlines the funding and capital profile of the Consolidated Entity.

Certain financial information in this report is prepared on a different basis to that contained in the Financial Report, which is prepared in accordance with Australian Accounting Standards. Where financial information presented within this report does not comply with Australian Accounting Standards, reconciliation to the statutory information is provided.

## Date of this report

This report has been prepared for the year ended 31 March 2017 and is current as at 5 May 2017.

## Comparative information and conventions

Where necessary, comparative figures have been restated to conform to changes in current year financial presentation and group structures.

References to the prior year are to the 12 months ended 31 March 2016.

References to the first half are to the six months ended 30 September 2016.

References to the second half are to the six months ended 31 March 2017.

In the financial tables throughout this document "*" indicates that the absolute percentage change in the balance was greater than 300% or indicates the result was a gain in one period but a loss in another, or vice versa.

## Independent auditor's report

This document should be read in conjunction with the Financial Report for the year ended 31 March 2017, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's report to the members of Macquarie Bank Limited dated 5 May 2017 was unqualified.

Any additional financial information in this document which is not included in the Financial Report was not subject to independent audit by PricewaterhouseCoopers.

## Contents



## Disclaimer

# RESULT OVERVIEW

1.1 Executive summary

# 1

## 1.1 EXECUTIVE SUMMARY

### 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 in the prior year, which included a profit from discontinued operations of $A1,040 million.

### *Continuing Operations*

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

**MAM, CAF** and **BFS** generated a combined net profit contribution for the year ended 31 March 2017 of $A1,752 million, up 13% on the prior year. Key performance drivers included:

| MAM: | down 28% on FY2016 |
|---|---|

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

| CAF: | up 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 Pounds Sterling.

| BFS: | up 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

**CGM** delivered a combined net profit contribution for the year ended 31 March 2017 of $A875 million, up 20% on the prior year. Key performance drivers included:

| CGM: | up 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.

### *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 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.

## 1.1 EXECUTIVE SUMMARY CONTINUED

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| **Financial performance summary** | | | | | | |
| Net interest income | **1,107** | 1,063 | 4 | **2,170** | 2,172 | (<1) |
| Fee and commission income | **452** | 368 | 23 | **820** | 930 | (12) |
| Net trading income | **927** | 740 | 25 | **1,667** | 2,124 | (22) |
| Net operating lease income | 445 | 477 | (7) | **922** | 881 | 5 |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method | **7** | (26) | * | **(19)** | 22 | * |
| Other operating income and charges | **8** | 253 | (97) | **261** | (486) | * |
| **Net operating income** | **2,946** | 2,875 | 2 | **5,821** | 5,643 | 3 |
| Employment expenses | **(711)** | (776) | (8) | **(1,487)** | (1,428) | 4 |
| Brokerage, commission and trading-related expenses | **(323)** | (303) | 7 | **(626)** | (640) | (2) |
| Occupancy expenses | **(57)** | (61) | (7) | **(118)** | (112) | 5 |
| Non-salary technology expenses | **(77)** | (81) | (5) | **(158)** | (151) | 5 |
| Other operating expenses | **(883)** | (816) | 8 | **(1,699)** | (1,576) | 8 |
| **Total operating expenses** | **(2,051)** | (2,037) | 1 | **(4,088)** | (3,907) | 5 |
| Operating profit before income tax | **895** | 838 | 7 | **1,733** | 1,736 | (<1) |
| Income tax expense | **(254)** | (255) | (<1) | **(509)** | (681) | (25) |
| Profit after income tax | **641** | 583 | 10 | **1,224** | 1,055 | 16 |
| Profit from discontinued operations (net of income tax) | **–** | – | – | **–** | 1,040 | (100) |
| Profit from ordinary activities and discontinued operations after income tax | **641** | 583 | 10 | **1,224** | 2,095 | (42) |
| Loss/(profit) attributable to non-controlling interests | **5** | 7 | (29) | **12** | 11 | 9 |
| **Profit attributable to equity holders of Macquarie Bank Limited** | **646** | 590 | 9 | **1,236** | 2,106 | (41) |
| Distributions paid or provided for on Macquarie Income Securities | **(7)** | (8) | (13) | **(15)** | (16) | (6) |
| **Profit attributable to ordinary equity holders of Macquarie Bank Limited** | **639** | 582 | 10 | **1,221** | 2,090 | (42) |
| **Profit from continuing operation** | **639** | 582 | 10 | **1,221** | 1,050 | 16 |
| **Profit from discontinued operations (net of income tax)** | **–** | – | – | **–** | 1,040 | (100) |
| **Key metrics** | | | | | | |
| Expense to income ratio (%) | **69.6** | 70.9 | | **70.2** | 69.2 | |
| Effective tax rate (%) | **28.2** | 30.2 | | **29.2** | 39.0 | |

## 1.1 EXECUTIVE SUMMARY CONTINUED

### 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 | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **3,837** | 4,296 |

**Down 11% 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 | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **820** | 930 |

**Down 12% 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 | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **922** | 881 |

**Up 5% 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 | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **(19)** | 22 |

**Down significantly 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 | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **261** | (486) |

**Up significantly 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 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 | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **1,487** | 1,428 |

**Up 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.

### Brokerage, commission and trading-related expenses

| FULL-YEAR TO | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **626** | 640 |

**Down 2% on prior year**

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

### Occupancy expenses

| FULL-YEAR TO | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **118** | 112 |

**Up 5% on prior year**

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

Partially offset by:

- favourable foreign currency movements.

### Non-salary technology expenses

| FULL-YEAR TO | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **158** | 151 |

**Up 5% on prior year**

- elevated project activity in BFS.

### Other operating expenses

| FULL-YEAR TO | |
|---|---|
| Mar 17 $Am | Mar 16 $Am |
| **1,699** | 1,576 |

**Up 8% on prior year**

- a change in approach to the capitalisation of software expenses in relation to the Core Banking platform 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 PERFORMANCE ANALYSIS

# 2

## 2.1 NET INTEREST AND TRADING INCOME

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| Net interest income | **1,107** | 1,063 | 4 | **2,170** | 2,172 | (<1) |
| Net trading income | **927** | 740 | 25 | **1,667** | 2,124 | (22) |
| **Net interest and trading income** | **2,034** | 1,803 | 13 | **3,837** | 4,296 | (11) |

Net interest income and net trading income are recorded in accordance with Australian Accounting Standards, with net interest income brought to account using the effective interest method and net trading income predominately comprising gains and losses relating to trading activities.

For CGM, which predominately earns income from trading-related activities, the relative contribution of net interest income and net trading income from those activities can vary from period to period depending on the underlying trading strategies undertaken by the Consolidated Entity and its clients.

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 a 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.

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, in CAF, interest rate swaps are entered into to hedge the interest rate risk associated with loan assets. The interest income and associated funding costs are recognised in net interest income; but the related swap is recognised in net trading income. Accordingly, net interest income and net trading income are presented and discussed below in aggregate for each Operating Group, which management believes presents a more consistent overview of business performance and allows for a better analysis of the underlying activities and drivers.

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| MAM | **52** | 52 | – | **104** | 113 | (8) |
| CAF | **348** | 346 | 1 | **694** | 834 | (17) |
| BFS | **551** | 498 | 11 | **1,049** | 941 | 11 |
| CGM | | | | | | |
| Commodities | **619** | 503 | 23 | **1,122** | 1,327 | (15) |
| Credit, interest rates and foreign exchange | **324** | 247 | 31 | **571** | 346 | 65 |
| Equities | **124** | 165 | (25) | **289** | 519 | (44) |
| Corporate | **16** | (8) | * | **8** | 216 | (96) |
| **Net interest and trading income** | **2,034** | 1,803 | 13 | **3,837** | 4,296 | (11) |

## 2.1 NET INTEREST AND TRADING INCOME CONTINUED

Net interest and trading income of $A3,837 million for the year ended 31 March 2017 decreased 11% from $A4,296 million in the prior year. The reduction was across most Operating Groups.

CGM was impacted by lower levels of commodities-related client activity and the impact of a mild winter in the US which reduced opportunities to capitalise on price dislocation between different regions for the North American Gas and Power businesses, and more challenging trading conditions in equity markets with transaction volumes impacted by macro-economic uncertainty, while the prior year benefited from strong equity markets activity, particularly in China. This was partially offset by increased income from ongoing volatility in foreign exchange and interest rates markets, combined with improved performance of high yield debt markets and specialty lending products.

In CAF there was an overall decline in net interest and trading income mainly driven by lower loan volumes in the Lending portfolio and increased funding costs due to the full-year impact of funding the AWAS portfolio. This was partially offset by the full-year contribution of the Esanda dealer finance portfolio.

BFS generated increased net interest and trading income mainly driven by average volume growth and improved margins across the Australian loan portfolios and higher deposit volumes, while Corporate was impacted by accounting volatility on economically hedged positions that do not qualify for hedge accounting.

### MAM

Net interest and trading income in MAM includes income on specialised retail products and interest income from the provision of financing facilities to external funds and their investors.

Net interest and trading income of $A104 million for the year ended 31 March 2017 decreased 8% from $A113 million in the prior year mostly due to the maturity of a number of products in the MSIS business.

### CAF

Net interest and trading income in CAF predominately relates to net income from the loan and finance lease (including motor vehicles and equipment financing) portfolios and the funding costs associated with the operating lease portfolios (including aviation, mining and energy assets).

Net interest and trading income of $A694 million for the year ended 31 March 2017 decreased 17% from $A834 million in the prior year. The decrease was largely due to lower volumes in the Lending portfolio and reduced income from prepayments and realisations from loan assets held at amortised cost. While total income from prepayments and realisations is broadly in line with the prior year, a significant income item in the current year has been recognised on the sale of equity investments and is classified as a Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale. In the prior year the majority of income from prepayments and realisations was interest and trading income derived from loan assets held at amortised cost.

In addition, there were increased funding costs in the current year mainly driven by the full-year impact of funding the AWAS aircraft operating lease portfolio. This was partially offset by the full-year contribution of the Esanda dealer finance portfolio.

The loan and finance lease portfolio was $A26.3 billion at 31 March 2017, a decrease of 8% from $A28.7 billion at 31 March 2016. The decrease was mainly driven by repayments and realisations in the Lending loan portfolio and the impact of unfavourable foreign currency movements on year end balances.

### BFS

Net interest and trading income of $A1,049 million for the year ended 31 March 2017 increased 11% from $A941 million in the prior year primarily due to a 6% growth in average Australian loan volumes and a 9% growth in the average deposit portfolio balance compared to the prior year.

In addition, net interest and trading income benefited from higher loan margins, partially offset by lower margins on deposits.

At 31 March 2017 the Australian loan and deposit portfolio included:

- Australian mortgage volumes of $A28.7 billion, a 1% increase from $A28.5 billion at 31 March 2016;
- business lending volumes of $A6.5 billion, a 10% increase from $A5.9 billion at 31 March 2016; and
- BFS deposits of $A44.5 billion, a 10% increase from $A40.4 billion at 31 March 2016.

The legacy loan portfolio was $A0.5 billion at 31 March 2017, down from $A1.6 billion at 31 March 2016 following the sale of the US mortgages portfolio during the year and the continued run down of the Canadian mortgage portfolio.

## 2.1 NET INTEREST AND TRADING INCOME CONTINUED

### CGM

Net interest and trading income in CGM is earned from the provision of risk and capital solutions across physical and financial markets.

#### *Commodities*

Net interest and trading income from commodities $A1,122 million for the year ended 31 March 2017 decreased 15% from $A1,327 million in the prior year, which was characterised by high levels of volatility across Energy, Agricultural and Metals markets. The current year included continued strong contributions across the Energy platform, notably Global Oil and North American Gas. There were mixed results in power markets with subdued volatility impacting North America in comparison to the prior year.

CGM was also impacted by weaker demand for base metals from China in comparison to prior year which was partially offset by increased client activity in precious metals.

#### *Credit, interest rates and foreign exchange*

Net interest and trading income from credit, interest rates and foreign exchange products of $A571 million for the year ended 31 March 2017 increased 65% from $A346 million in the prior year. Increased income in the current year was underpinned by contributions from the foreign exchange and interest rates markets due to ongoing market volatility associated with macro-economic events and uncertainty in US rates. The result also reflects improved performance of high yield debt markets and revenues from specialty lending products.

#### *Equities*

Equities net interest and trading income of $A289 million for the year ended 31 March 2017 decreased from $A519 million in the prior year, reflecting more challenging trading conditions with transaction volumes impacted by macro-economic uncertainty. The prior year benefited from strong equity markets activity, particularly in China.

### Corporate

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for Macquarie Bank, earnings on capital, funding costs associated with non-core investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where designated hedge accounting is unable to be achieved for accounting purposes.

Net interest and trading income of $A8 million for the year ended 31 March 2017 decreased significantly from $A216 million in the prior year primarily due to the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting, lower earnings on capital following two Australian dollar interest rate cuts during the year and higher costs associated with managing the Bank Group's liquidity and funding position.

## 2.2 FEE AND COMMISSION INCOME

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| Brokerage and commissions | **179** | 190 | (6) | **369** | 436 | (15) |
| Other fee and commission income | **273** | 178 | 53 | **451** | 494 | (9) |
| **Total fee and commission income** | **452** | 368 | 23 | **820** | 930 | (12) |

Total fee and commission income of $A820 million for the year ended 31 March 2017 decreased 12% from $A930 million in the prior year largely due to lower brokerage and commissions fee income.

### Brokerage and commissions

Brokerage and commissions income of $A369 million for the year ended 31 March 2017 decreased 15% from $A436 million in the prior year.

The decrease was mainly in fee and commission income from equities-related activities driven by market uncertainty that resulted in reduced client activity across Asia and reduced brokerage commission rates due to the trend towards lower margin platforms and pricing pressures.

These impacts were partially offset by improved market volumes in futures markets driven by increased volatility.

### Other fee and commission income

Other fee and commission income includes fees earned on a range of BFS' products including the Wrap and Vision platforms, insurance, business lending, credit cards and mortgages as well as distribution service fees, structuring fees and capital protection fees.

Other fee and commission income of $A451 million for the year ended 31 March 2017 decreased 9% from $A494 million in the prior year, impacted by the non-recurrence of a performance fee received in respect of a UK asset in the prior year and the impact of the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in September 2016 in BFS. This was partially offset by increased fee income across a number of activities including the Wrap and Vision platforms in BFS, asset finance in CAF and commodity investor products in CGM.

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## 2.3 NET OPERATING LEASE INCOME

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| Rental income | **822** | 844 | (3) | **1,666** | 1,561 | 7 |
| Depreciation on operating lease assets | **(377)** | (367) | 3 | **(744)** | (680) | 9 |
| **Net operating lease income** | **445** | 477 | (7) | **922** | 881 | 5 |

Net operating lease income, which is predominately earned by CAF, totalled $A922 million for the year ended 31 March 2017, an increase of 5% from $A881 million in the prior year. The increase was primarily due to the full-year impact of the AWAS portfolio acquisition during the prior year, partially offset by the impact of unfavourable foreign currency movements and the sale of nine aircraft during the year ended 31 March 2017.

CAF's operating lease portfolio was $A10.0 billion at 31 March 2017, a decrease of 6% from $A10.6 billion at 31 March 2016. The decrease was primarily due to the depreciation of Aviation assets and the impact of unfavourable foreign currency movements on year end balances.

## 2.4 SHARE OF NET PROFITS OF ASSOCIATES AND JOINT VENTURES

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| **Share of net profits/(losses) of associates and joint ventures accounted for using the equity method** | **7** | (26) | * | **(19)** | 22 | * |

Share of net losses of associates and joint ventures of $A19 million for the year ended 31 March 2017 decreased from a profit of $A22 million in the prior year. The decrease was mainly due to the non-recurrence of gains on certain legacy real estate related investments and other non-core assets in Corporate in the prior year.

## 2.5 OTHER OPERATING INCOME AND CHARGES

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| Net gains on sale of investment securities available for sale | **12** | 27 | (56) | **39** | 28 | 39 |
| Impairment charge on investment securities available for sale | **(13)** | (19) | (32) | **(32)** | (33) | (3) |
| Net gains on sale of interests in associates and joint ventures | **7** | 103 | (93) | **110** | 20 | * |
| Impairment charge on interests in associates and joint ventures | **(1)** | (5) | (80) | **(6)** | (4) | 50 |
| Gain on disposal of operating lease assets | **1** | 15 | (93) | **16** | 8 | 100 |
| Gain/(loss) on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale | **143** | 234 | (39) | **377** | (24) | * |
| Impairment charge on intangibles and other non-financial assets | **(11)** | (34) | (68) | **(45)** | (60) | (25) |
| Dividends/distributions received/receivable | **5** | 5 | – | **10** | 38 | (74) |
| Collective allowance for credit losses provided for during the financial year | **–** | – | – | **–** | (9) | (100) |
| Individually assessed provisions for impairment and write-offs | **(134)** | (119) | 13 | **(253)** | (491) | (48) |
| Other income | **(1)** | 46 | * | **45** | 41 | 10 |
| **Total other operating income and charges** | **8** | 253 | (97) | **261** | (486) | * |

Total other operating income and charges of $A261 million for the year ended 31 March 2017 increased from a charge of $A486 million in the prior year, mainly driven by an increase in gains on the sale of equity investments in CAF and CGM, a gain on sale of Macquarie Life's risk insurance business by BFS and a reduction in impairment charges and provisions mainly in CGM.

### Net gains on sale of investments

Net gains on sale of investments (including debt and equity investment securities available for sale and investments in associates and joint ventures) totalled $A149 million for the year ended 31 March 2017, up from $A48 million in the prior year. The increase was mainly driven by gains on the sale of a number of investments mainly in the energy and related sectors in CGM.

### Impairment charge on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets

Impairment charge on investment securities available for sale, associates and joint ventures, intangibles and other non-financial assets totalled $A83 million for the year ended 31 March 2017, a decrease of 14% from $A97 million in the prior year. The decrease predominately relates to a reduction in the residual Metals & Energy Capital equity investment portfolio.

### Gain on disposal of operating lease assets

Gain on disposal of operating lease assets of $A16 million for the year ended 31 March 2017 predominately related to gains recognised on the sale of nine aircraft by CAF.

### Gain/(loss) on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale

Gains on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of $A377 million for the year ended 31 March 2017 increased from a loss of $A24 million in the prior year. Significant transactions in the current year included the sale of Macquarie Life's risk insurance business to Zurich Australia Limited by BFS and the sale of an interest in a toll road in the US by CAF's Lending business.

### Dividends/distributions received/receivable

Dividends/distributions received/receivable of $A10 million for the year ended 31 March 2017 decreased 74% from $A38 million in the prior year predominately due to the non-recurrence of a dividend received on disposal of an investment in a UK asset in BFS.

### Aggregate charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses

Aggregate charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses of $A253 million for the year ended 31 March 2017 decreased 49% from $A500 million in the prior year. The decrease was mainly as a result of reduced exposure to underperforming commodity-related loans in CGM.

### 2.6 OPERATING EXPENSES

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| Employment expenses | | | | | | |
| Salary and salary-related costs including commissions, superannuation and performance-related profit share | **(636)** | (683) | (7) | **(1,319)** | (1,297) | 2 |
| Share-based payments | **(73)** | (90) | (19) | **(163)** | (132) | 23 |
| (Provision for)/reversal for long service leave and annual leave | **(2)** | (3) | (33) | **(5)** | 1 | * |
| Total compensation expenses | **(711)** | (776) | (8) | **(1,487)** | (1,428) | 4 |
| Other employment expenses including on-costs, staff procurement and staff training | **–** | – | – | **–** | – | – |
| Total employment expenses | **(711)** | (776) | (8) | **(1,487)** | (1,428) | 4 |
| Brokerage, commission and trading-related expenses | **(323)** | (303) | 7 | **(626)** | (640) | (2) |
| Occupancy expenses | **(57)** | (61) | (7) | **(118)** | (112) | 5 |
| Non-salary technology expenses | **(77)** | (81) | (5) | **(158)** | (151) | 5 |
| Other operating expenses | | | | | | |
| Professional fees | **(100)** | (85) | 18 | **(185)** | (201) | (8) |
| Auditor's remuneration | **(10)** | (12) | (17) | **(22)** | (22) | – |
| Travel and entertainment expenses | **(25)** | (26) | (4) | **(51)** | (57) | (11) |
| Advertising and communication expenses | **(16)** | (15) | 7 | **(31)** | (34) | (9) |
| Amortisation of intangibles | **(6)** | (5) | 20 | **(11)** | (34) | (68) |
| Other expenses | **(726)** | (673) | 8 | **(1,399)** | (1,228) | 14 |
| Total other operating expenses | **(883)** | (816) | 8 | **(1,699)** | (1,576) | 8 |
| **Total operating expenses** | **(2,051)** | (2,037) | 1 | **(4,088)** | (3,907) | 5 |

Total operating expenses of $A4,088 million for the year ended 31 March 2017 increased 5% from $A3,907 million in the prior year mainly due to an increase in employment expenses driven by increased profits in recent years, combined with elevated project activity and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in BFS.

Key drivers of the change in total operating expenses include:

- Total employment expenses of $A1,487 million for the year ended 31 March 2017 increased 4% from $A1,428 million in the prior year mainly due to share-based payments expense relating to increased retained equity awards granted in previous years and higher performance-related profit share expense, largely driven by the improved overall performance of the Operating Groups. A small increase in average headcount driven by the acquisition of Esanda by CAF in the prior year was largely offset by reductions across most other Operating Groups. Employment expenses also benefited from favourable foreign currency movements, which were largely offset by higher fixed remuneration across the Consolidated Entity.
- Brokerage, commission and trading-related expenses of $A626 million for the year ended 31 March 2017 decreased 2% from $A640 million in the prior year mainly driven by reduced equities and commodities-related trading activities in CGM.
- Occupancy expenses of $A118 million for the year ended 31 March 2017 increased 5% from $A112 million in the prior year mainly due to the full-year impact of additional premises associated with business acquisitions and offshore growth partially offset by favourable foreign currency movements.
- Non-salary technology expenses of $A158 million for the year ended 31 March 2017 increased 5% from $A151 million in the prior year mainly due to elevated project activity and a change in approach to the capitalisation of software expenses in relation to the Core Banking platform in BFS. Refer to Section 3.4 for further details.
- Total other operating expenses of $A1,699 million for the year ended 31 March 2017 increased 8% from $A1,576 million in the prior year, mainly due to increased fees for services provided by entities outside of the Bank Group within Corporate, partially offset by lower amortisation of intangibles expense in connection with the Core Banking platform in BFS and the non-recurrence of costs associated with the acquisition of the Esanda dealer finance portfolio in CAF in the prior year.

## 2.7 HEADCOUNT

| | AS AT | | | MOVEMENT | |
|---|---|---|---|---|---|
| | Mar 17 | Sep 16 | Mar 16 | Sep 16 % | Mar 16 % |
| **Headcount by Operating Group** | | | | | |
| MAM | **124** | 115 | 105 | 8 | 18 |
| CAF | **1,254** | 1,342 | 1,350 | (7) | (7) |
| BFS | **1,990** | 2,049 | 2,180 | (3) | (9) |
| CGM | **908** | 927 | 953 | (2) | (5) |
| Total headcount - Operating Groups | **4,276** | 4,433 | 4,588 | (4) | (7) |
| Total headcount - discontinued operations | **59** | 91 | 93 | (35) | (37) |
| Total headcount - Corporate | **31** | 41 | 40 | (24) | (23) |
| **Total headcount** | **4,366** | 4,565 | 4,721 | (4) | (8) |
| **Headcount by region** | | | | | |
| Australia[1] | **3,108** | 3,249 | 3,389 | (4) | (8) |
| International: | | | | | |
| Americas | **496** | 505 | 514 | (2) | (4) |
| Asia | **304** | 325 | 327 | (6) | (7) |
| Europe, Middle East and Africa | **458** | 486 | 491 | (6) | (7) |
| Total headcount - International | **1,258** | 1,316 | 1,332 | (4) | (6) |
| **Total headcount** | **4,366** | 4,565 | 4,721 | (4) | (8) |
| International headcount ratio (%) | **29** | 29 | 28 | | |

(1) Includes New Zealand

Total headcount decreased 8% to 4,366 at 31 March 2017 from 4,721 at 31 March 2016 mainly due to realisation of efficiencies in BFS and CGM, as well as the sale of Macquarie Life's risk insurance business in BFS.

## 2.8 INCOME TAX EXPENSE

| | FULL-YEAR TO | |
|---|---|---|
| | Mar 17 $Am | Mar 16 $Am |
| Operating profit from continuing operations before income tax | **1,733** | 1,736 |
| Prima facie tax @ 30% | **520** | 521 |
| Income tax permanent differences | **(11)** | 160 |
| Income tax expense | **509** | 681 |
| **Effective tax rate(1)** | **29.2%** | 39.0% |

(1) The effective tax rate is calculated on net profit before income tax and after non-controlling interests. Non-controlling interests increased net profit before income tax by $A12 million for the year ended 31 March 2017 (31 March 2016: $A11 million).

Income tax expense for the year ended 31 March 2017 was $A509 million, a 25% decrease from $A681 million in the prior year. The effective tax rate for the year ended 31 March 2017 was 29.2%.

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.

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# SEGMENT ANALYSIS

# 3

### 3.1 BASIS OF PREPARATION

#### 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.

For internal reporting, performance measurement and risk management purposes, the 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, advisers, 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 Consolidated Entity.

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 Chief Executive Officer or Chief Financial Officer. 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 a 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 total 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 Corporate Operations Group (COG), Financial Management Group (FMG), Risk Management Group (RMG), Legal and Governance and Central Executive.

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

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan (MEREP) is recognised in the Corporate segment and not allocated to Operating Groups.

## 3.1 BASIS OF PREPARATION CONTINUED

### 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/charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on aggregation.

### Presentation of segment income statements

The income statements in the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of the Consolidated Entity's financial performance. The financial information disclosed relates to ordinary activities.

### 3.1 BASIS OF PREPARATION CONTINUED

| | MAM $Am | CAF $Am | BFS $Am | **Annuity-Style Businesses $Am** |
|---|---|---|---|---|
| **Full-year ended 31 March 2017** | | | | |
| Net interest and trading income | 104 | 694 | 1,049 | **1,847** |
| Fee and commission income/(expense) | 65 | 58 | 469 | **592** |
| Net operating lease income | 13 | 904 | – | **917** |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method | – | – | 6 | **6** |
| Other operating income and charges | | | | |
| Impairment charges, write-offs and provisions, net of recoveries | 1 | (111) | (91) | **(201)** |
| Other operating income and charges | (13) | 233 | 205 | **425** |
| Internal management revenue/(charge) | 1 | 40 | 5 | **46** |
| Net operating income | 171 | 1,818 | 1,643 | **3,632** |
| Total operating expenses | (117) | (631) | (1,133) | **(1,881)** |
| Profit/(loss) before tax | 54 | 1,187 | 510 | **1,751** |
| Tax expense | – | – | – | **–** |
| Loss/(profit) attributable to non-controlling interests | – | 1 | – | **1** |
| Profit/(loss) attributable to equity holders | 54 | 1,188 | 510 | **1,752** |
| Distributions paid or provided for on MIS | – | – | – | **–** |
| **Net profit/(loss) contribution** | **54** | **1,188** | **510** | **1,752** |
| **Full-year ended 31 March 2016** | | | | |
| Net interest and trading interest | 113 | 834 | 941 | 1,888 |
| Fee and commission income/(expense) | 54 | 44 | 524 | 622 |
| Net operating lease income | 12 | 865 | – | 877 |
| Share of net profits of associates and joint ventures accounted for using the equity method | – | 7 | 1 | 8 |
| Other operating income and charges | | | | |
| Impairment charges, write-offs and provisions, net of recoveries | 2 | (168) | (43) | (209) |
| Other operating income and charges | 8 | 67 | 35 | 110 |
| Internal management revenue/(charge) | 2 | 60 | 4 | 66 |
| Net operating income | 191 | 1,709 | 1,462 | 3,362 |
| Total operating expenses | (116) | (589) | (1,114) | (1,819) |
| Profit/(loss) before tax | 75 | 1,120 | 348 | 1,543 |
| Tax expense | – | – | – | – |
| Loss attributable to non-controlling interests | – | 1 | – | 1 |
| Profit/(loss) attributable to equity holders | 75 | 1,121 | 348 | 1,544 |
| Distributions paid or provided for on MIS | – | – | – | – |
| **Net profit/(loss) contribution** | **75** | **1,121** | **348** | **1,544** |

| CGM $Am | Capital Markets Facing Businesses $Am | Corporate $Am | Total $Am |
|---|---|---|---|
| 1,982 | **1,982** | 8 | **3,837** |
| 339 | **339** | (111) | **820** |
| – | **–** | 5 | **922** |
| – | **–** | (25) | **(19)** |
| (157) | **(157)** | 22 | **(336)** |
| 148 | **148** | 24 | **597** |
| 11 | **11** | (57) | **–** |
| 2,323 | **2,323** | (134) | **5,821** |
| (1,447) | **(1,447)** | (760) | **(4,088)** |
| 876 | **876** | (894) | **1,733** |
| – | **–** | (509) | **(509)** |
| (1) | **(1)** | 12 | **12** |
| 875 | **875** | (1,391) | **1,236** |
| – | **–** | (15) | **(15)** |
| **875** | **875** | **(1,406)** | **1,221** |
| | | | |
| 2,192 | 2,192 | 216 | 4,296 |
| 329 | 329 | (21) | 930 |
| – | – | 4 | 881 |
| 5 | 5 | 9 | 22 |
| (331) | (331) | (57) | (597) |
| 47 | 47 | (46) | 111 |
| (2) | (2) | (64) | – |
| 2,240 | 2,240 | 41 | 5,643 |
| (1,508) | (1,508) | (580) | (3,907) |
| 732 | 732 | (539) | 1,736 |
| – | – | (681) | (681) |
| – | – | 10 | 11 |
| 732 | 732 | (1,210) | 1,066 |
| – | – | (16) | (16) |
| **732** | **732** | **(1,226)** | **1,050** |

### 3.2 MAM

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| **Net interest and trading income** | **52** | 52 | – | **104** | 113 | (8) |
| **Fee and commission income** | | | | | | |
| Base fees | **21** | 18 | 17 | **39** | 33 | 18 |
| Other fee and commission income | **16** | 10 | 60 | **26** | 21 | 24 |
| Total fee and commission income | **37** | 28 | 32 | **65** | 54 | 20 |
| **Net operating lease income** | **7** | 6 | 17 | **13** | 12 | 8 |
| **Other operating income and charges** | **(25)** | 13 | * | **(12)** | 10 | * |
| **Internal management revenue** | **1** | – | * | **1** | 2 | (50) |
| **Net operating income** | **72** | 99 | (27) | **171** | 191 | (10) |
| **Operating expenses** | | | | | | |
| Employment expenses | **(13)** | (14) | (7) | **(27)** | (29) | (7) |
| Brokerage, commission and trading-related expenses | **(19)** | (8) | 138 | **(27)** | (22) | 23 |
| Other operating expenses | **(32)** | (31) | 3 | **(63)** | (65) | (3) |
| **Total operating expenses** | **(64)** | (53) | 21 | **(117)** | (116) | 1 |
| **Net profit contribution** | **8** | 46 | (83) | **54** | 75 | (28) |
| **Non-GAAP metrics** | | | | | | |
| MAM assets under management ($A billion) | **5.5** | 4.2 | 31 | **5.5** | 3.6 | 53 |
| Headcount | **124** | 115 | 8 | **124** | 105 | 18 |

- Net profit contribution of $A54 million for the year ended 31 March 2017, down 28% from the prior year
- Strong performance from the MSIS business
- Prior year benefited from a gain on the sale of the almond orchard.

#### Net interest and trading income

Net interest and trading income of $A104 million for the year ended 31 March 2017 decreased 8% from $A113 million in the prior year mostly due to the maturity of a number of products in the MSIS business.

#### Base fees

Base fee income of $A39 million for the year ended 31 March 2017 increased 18% from $A33 million in the prior year. Base fee income benefited from growth in the MSIS Infrastructure Debt business.

#### Other operating income and charges

Net other operating charges of $A12 million for the year ended 31 March 2017 decreased from net income of $A10 million in the prior year. The decrease was mainly due to the non-recurrence of a gain on the sale of the almond orchard.

#### Operating expenses

Total operating expenses of $A117 million for the year ended 31 March 2017 were broadly in line with expenses of $A116 million in the prior year.

### 3.3 CAF

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| **Net interest and trading income** | **348** | 346 | 1 | **694** | 834 | (17) |
| **Fee and commission income** | **35** | 23 | 52 | **58** | 44 | 32 |
| **Net operating lease income** | **437** | 467 | (6) | **904** | 865 | 5 |
| **Share of net profits of associates and joint ventures accounted for using the equity method** | **–** | – | – | **–** | 7 | (100) |
| **Other operating income and charges** | | | | | | |
| Impairment charge on equity investments, intangibles and other non-financial assets | **(11)** | (17) | (35) | **(28)** | (45) | (38) |
| Gain on disposal of operating lease assets | **1** | 15 | (93) | **16** | 8 | 100 |
| Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale | **140** | – | * | **140** | 6 | * |
| Provisions for impairment, write-offs and collective allowance for credit losses | **(39)** | (44) | (11) | **(83)** | (123) | (33) |
| Other income | **41** | 36 | 14 | **77** | 53 | 45 |
| Total other operating income and charges | **132** | (10) | * | **122** | (101) | * |
| **Internal management revenue** | **37** | 3 | * | **40** | 60 | (33) |
| **Net operating income** | **989** | 829 | 19 | **1,818** | 1,709 | 6 |
| **Operating expenses** | | | | | | |
| Employment expenses | **(131)** | (134) | (2) | **(265)** | (236) | 12 |
| Brokerage, commission and trading-related expenses | **(5)** | (4) | 25 | **(9)** | (7) | 29 |
| Other operating expenses | **(181)** | (176) | 3 | **(357)** | (346) | 3 |
| **Total operating expenses** | **(317)** | (314) | 1 | **(631)** | (589) | 7 |
| **Non-controlling interests**(1) | **–** | 1 | (100) | **1** | 1 | – |
| **Net profit contribution** | **672** | 516 | 30 | **1,188** | 1,121 | 6 |
| **Non-GAAP metrics** | | | | | | |
| Loan and finance lease portfolio(2) ($A billion) | **26.3** | 28.0 | (6) | **26.3** | 28.7 | (8) |
| Operating lease portfolio ($A billion) | **10.0** | 10.0 | – | **10.0** | 10.6 | (6) |
| Headcount | **1,254** | 1,342 | (7) | **1,254** | 1,350 | (7) |

(1) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.
(2) Includes equity portfolio of $A0.4 billion (FY16: $A0.3 billion)

- Net profit contribution of $A1,188 million for the year ended 31 March 2017, up 6% from the prior year
- 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 Pounds Sterling.

## 3.3 CAF CONTINUED

### Net interest and trading income

Net interest and trading income in CAF predominately relates to net income from the loan and finance lease (including motor vehicles and equipment financing) portfolios and the funding costs associated with the operating lease portfolios (including aviation, mining and energy assets).

Net interest and trading income of $A694 million for the year ended 31 March 2017 decreased 17% from $A834 million in the prior year.

The decrease was largely due to lower volumes in the Lending portfolio and reduced income from prepayments and realisations from loan assets held at amortised cost. While total income from prepayments and realisations is broadly in line with the prior year, a significant income item in the current year has been recognised on the sale of equity investments and is classified as a Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale. In the prior year the majority of income from prepayments and realisations was interest and trading income derived from loan assets held at amortised cost.

In addition, there were increased funding costs in the current year mainly driven by the full-year impact of funding the AWAS aircraft operating lease portfolio. This was partially offset by the full-year contribution of the Esanda dealer finance portfolio.

The loan and finance lease portfolio was $A26.3 billion at 31 March 2017, a decrease of 8% from $A28.7 billion at 31 March 2016. The decrease was mainly driven by repayments and realisations in the Lending loan portfolio and the impact of unfavourable foreign currency movements on year end balances.

### Net operating lease income

Net operating lease income of $A904 million for the year ended 31 March 2017 increased 5% from $A865 million in the prior year primarily due to the full-year impact of the AWAS portfolio acquisition during the prior year, partially offset by the impact of unfavourable foreign currency movements and the sale of nine aircraft during the year ended 31 March 2017.

The operating lease portfolio was $A10.0 billion at 31 March 2017, a decrease of 6% from $A10.6 billion at 31 March 2016. The decrease was primarily due to the depreciation of Aviation assets and the impact of unfavourable foreign currency movements on year end balances.

### Impairment charge on equity investments, intangibles and other non-financial assets

The impairment charge on equity investments, intangibles and other non-financial assets of $A28 million for the year ended 31 March 2017 predominately related to impairments of Aviation assets.

### Gain on disposal of operating lease assets

The gain on disposal of operating lease assets of $A16 million for the year ended 31 March 2017 predominately related to gains recognised on the sale of nine aircraft.

### Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale

The gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of $A140 million for the year ended 31 March 2017 primarily relates to a gain realised on the sale of an interest in a toll road in the US by the Lending business.

### Provisions for impairment, write-offs and collective allowance for credit losses

Provisions for impairment, write-offs and collective allowance for credit losses of $A83 million for the year ended 31 March 2017 decreased from $A123 million in the prior year due to the underperformance of certain credits in the prior year that did not occur in the current year.

### Operating expenses

Total operating expenses of $A631 million for the year ended 31 March 2017 increased 7% from $A589 million in the prior year. This was primarily driven by the full-year impact of costs associated with the Esanda dealer finance portfolio that was acquired in the prior year.

### 3.4 BFS

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| **Net interest and trading income** | **551** | 498 | 11 | **1,049** | 941 | 11 |
| **Fee and commission income** | | | | | | |
| Wealth management fee income | **153** | 157 | (3) | **310** | 311 | (<1) |
| Banking fee income | **62** | 70 | (11) | **132** | 137 | (4) |
| Life insurance income | **–** | 27 | (100) | **27** | 56 | (52) |
| Other fee and commission income | **–** | – | – | **–** | 20 | (100) |
| Total fee and commission income | **215** | 254 | (15) | **469** | 524 | (10) |
| **Share of net profits of associates and joint ventures accounted for using the equity method** | **5** | 1 | * | **6** | 1 | * |
| **Other operating income and charges** | | | | | | |
| Impairment charge on equity investments, intangibles and other non-financial assets | **(7)** | (46) | (85) | **(53)** | (8) | * |
| Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale | **–** | 192 | (100) | **192** | – | * |
| Provisions for impairment, write-offs and collective allowance for credit losses | **(6)** | (32) | (81) | **(38)** | (35) | 9 |
| Other income | **4** | 9 | (56) | **13** | 35 | (63) |
| Total other operating income and charges | **(9)** | 123 | * | **114** | (8) | * |
| **Internal management revenue** | **4** | 1 | * | **5** | 4 | 25 |
| **Net operating income** | **766** | 877 | (13) | **1,643** | 1,462 | 12 |
| **Operating expenses** | | | | | | |
| Employment expenses | **(155)** | (171) | (9) | **(326)** | (345) | (6) |
| Brokerage, commission and trading-related expenses | **(103)** | (105) | (2) | **(208)** | (207) | <1 |
| Technology expenses(1) | **(132)** | (189) | (30) | **(321)** | (282) | 14 |
| Other operating expenses | **(125)** | (153) | (18) | **(278)** | (280) | (1) |
| **Total operating expenses** | **(515)** | (618) | (17) | **(1,133)** | (1,114) | 2 |
| **Net profit contribution** | **251** | 259 | (3) | **510** | 348 | 47 |
| **Non-GAAP metrics** | | | | | | |
| Funds on platform(2) ($A billion) | **72.2** | 62.1 | 16 | **72.2** | 58.4 | 24 |
| Australian loan portfolio(3) ($A billion) | **35.8** | 35.6 | 1 | **35.8** | 35.1 | 2 |
| Legacy loan portfolios(4) ($A billion) | **0.5** | 0.6 | (17) | **0.5** | 1.6 | (69) |
| BFS deposits(5) ($A billion) | **44.5** | 42.2 | 5 | **44.5** | 40.4 | 10 |
| Headcount(6) | **1,990** | 1,952 | 2 | **1,990** | 2,180 | (9) |

(1) Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.
(2) Funds on platform includes Macquarie Wrap and Vision.
(3) The Australian loan portfolio comprises residential mortgages, loans to businesses, insurance premium funding and credit cards.
(4) The legacy loan portfolios primarily comprise residential mortgages in Canada and the US.
(5) BFS Deposits excludes corporate/wholesale deposits.
(6) Headcount at 30 September 2016 excludes 97 staff relating to the sale of the Macquarie Life business.

## 3.4 BFS CONTINUED

- Net profit contribution of $A510 million for the year ended 31 March 2017, up 47% from the prior year
- 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.

### Net interest and trading income

Net interest and trading income of $A1,049 million for the year ended 31 March 2017 increased 11% from $A941 million in the prior year primarily due to a 6% growth in average Australian loan volumes and a 9% growth in the average deposit portfolio balance compared to the prior year.

In addition, net interest and trading income benefited from higher loan margins, partially offset by lower margins on deposits.

At 31 March 2017 the Australian loan and deposit portfolio included:

- Australian mortgage volumes of $A28.7 billion, a 1% increase from $A28.5 billion at 31 March 2016;
- business lending volumes of $A6.5 billion, a 10% increase from $A5.9 billion at 31 March 2016; and
- BFS deposits of $A44.5 billion, a 10% increase from $A40.4 billion at 31 March 2016.

The legacy loan portfolio was $A0.5 billion at 31 March 2017, down from $A1.6 billion at 31 March 2016 following the sale of the US mortgages portfolio during the year and the continued run down of the Canadian mortgage portfolio.

### Wealth management fee income

Wealth management fee income relates to fees earned on a range of BFS' products and services including the Wrap and Vision platforms, deposits and the provision of wealth services in Australia.

Wealth management fee income of $A310 million for the year ended 31 March 2017 was in line with the prior year. Increased platform commissions from higher funds on the Wrap and Vision platforms was offset by lower advice fees from lower adviser headcount.

Funds on platform closed at $A72.2 billion at 31 March 2017, an increase of 24% from $A58.4 billion at 31 March 2016 largely due to the successful migration of the ANZ Oasis Wrap superannuation and investment assets onto Macquarie's Wrap platform in December 2016 combined with market movements.

### Banking fee income

Banking fee income relates to fees earned on a range of BFS' products including mortgages, credit cards, business loans and deposits.

Banking fee income of $A132 million for the year ended 31 March 2017 decreased 4% from $A137 million in the prior year.

### Life insurance income

Life insurance income relates to premium income earned on life insurance policies administered by Macquarie Life Limited.

Life insurance income of $A27 million for the year ended 31 March 2017 decreased 52% from $A56 million in the prior year due to the sale of Macquarie Life's risk insurance business to Zurich Australia Limited in September 2016.

### Other fee and commission income

Other fee and commission income for the year ended 31 March 2016 of $A20 million included a performance fee received in respect of the sale of a UK asset.

### Impairment charge on equity investments, intangibles and other non-financial assets

The impairment charge on equity investments, intangibles and other non-financial assets of $A53 million for the year ended 31 March 2017 increased from $A8 million in the prior year due to the underperformance of certain equity positions and impairments of intangibles relating to the Core Banking platform, primarily impacting the first half.

### Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale

The gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of $A192 million for the year ended 31 March 2017 was driven by the sale of Macquarie Life's risk insurance business to Zurich Australia Limited, partly offset by losses on the sale of the US mortgages portfolio.

### Provisions for impairment, write-offs and collective allowance for credit losses

Provisions for impairment, write-offs and collective allowance for credit losses of $A38 million for the year ended 31 March 2017 increased 9% from $A35 million in the prior year due to growth in the Australian loan portfolio and increased business lending provisions on a small number of loans.

### Other income

Other income of $A13 million for the year ended 31 March 2017 decreased from $A35 million in the prior year, which included a dividend on disposal of an investment in a UK asset.

## 3.4 BFS CONTINUED

### Operating expenses

Total operating expenses of $A1,133 million for the year ended 31 March 2017 increased 2% from $A1,114 million in the prior year.

Employment expenses of $A326 million for the year ended 31 March 2017 decreased 6% from $A345 million in the prior year driven by lower headcount from the realisation of efficiencies and the sale of Macquarie Life's risk insurance business.

Brokerage, commission and trading-related expenses of $A208 million for the year ended 31 March 2017 were broadly in line with the prior year.

Technology expenses of $A321 million for the year ended 31 March 2017 increased 14% from $A282 million in the prior year. The increase is mainly due to elevated project activity and a change in the approach to the capitalisation of software expenses relating to the Core Banking platform implemented in the current year.

The change in approach to the capitalisation of software expenses is in response to a rapidly changing environment for technology and has resulted in the narrowing of the eligibility criteria for capitalisation in connection with the Core Banking platform. Costs that are not directly part of the Core Banking platform itself, such as ancillary software that connect to the banking platform, are no longer eligible for capitalisation.

The impact of this change for the full-year ended 31 March 2017 was as follows:

– increased operating costs of $A12 million relating to technology that was expensed in the current year but would have otherwise been capitalised and amortised over future years; and
– accelerated expensing of technology costs previously capitalised of $A40 million, bringing forward expenses that would have otherwise been incurred in future years.

Other operating expenses of $A278 million for the year ended 31 March 2017 were broadly in line with the prior year.

### 3.5 CGM

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| **Net interest and trading income** | | | | | | |
| Commodities | **619** | 503 | 23 | **1,122** | 1,327 | (15) |
| Credit, interest rates and foreign exchange | **324** | 247 | 31 | **571** | 346 | 65 |
| Equities | **124** | 165 | (25) | **289** | 519 | (44) |
| Net interest and trading income | **1,067** | 915 | 17 | **1,982** | 2,192 | (10) |
| **Fee and commission income** | | | | | | |
| Brokerage and commissions | **137** | 137 | – | **274** | 336 | (18) |
| Other fee and commission income | **32** | 33 | (3) | **65** | (7) | * |
| Total fee and commission income | **169** | 170 | (1) | **339** | 329 | 3 |
| **Share of net profits/(losses) of associates and joint ventures accounted for using the equity method** | **10** | (10) | * | **–** | 5 | (100) |
| **Other operating income and charges** | | | | | | |
| Net gains on sale of equity and debt investments | **16** | 104 | (85) | **120** | 31 | 287 |
| Impairment charge on equity investments, intangibles and other non-financial assets | **(8)** | (11) | (27) | **(19)** | (44) | (57) |
| Provisions for impairment and collective allowance for credit losses | **(97)** | (41) | 137 | **(138)** | (287) | (52) |
| Other income | **13** | 15 | (13) | **28** | 16 | 75 |
| Total other operating income and charges | **(76)** | 67 | * | **(9)** | (284) | (97) |
| **Internal management (charge)/revenue** | **5** | 6 | (17) | **11** | (2) | * |
| **Net operating income** | **1,175** | 1,148 | 2 | **2,323** | 2,240 | 4 |
| **Operating expenses** | | | | | | |
| Employment expenses | **(142)** | (153) | (7) | **(295)** | (339) | (13) |
| Brokerage, commission and trading-related expenses | **(195)** | (184) | 6 | **(379)** | (401) | (5) |
| Other operating expenses | **(382)** | (391) | (2) | **(773)** | (768) | 1 |
| **Total operating expenses** | **(719)** | (728) | (1) | **(1,447)** | (1,508) | (4) |
| **Non-controlling interests**[(1)] | **–** | (1) | (100) | **(1)** | – | * |
| **Net profit contribution** | **456** | 419 | 9 | **875** | 732 | 20 |
| **Non-GAAP metrics** | | | | | | |
| Headcount | **908** | 927 | (2) | **908** | 953 | (5) |

(1) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

## 3.5 CGM CONTINUED

- Net profit contribution of $A875 million for the year ended 31 March 2017, up 20% from the prior year
- 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.

### Commodities net interest and trading income

Net interest and trading income from commodities $A1,122 million for the year ended 31 March 2017 decreased 15% from $A1,327 million in the prior year, which was characterised by high levels of volatility across Energy, Agricultural and Metals markets. The current year included continued strong contributions across the Energy platform, notably Global Oil and North American Gas. There were mixed results in power markets with subdued volatility impacting North America in comparison to the prior year.

CGM was also impacted by weaker demand for base metals from China in comparison to prior year which was partially offset by increased client activity in precious metals.

### Credit, interest rates and foreign exchange net interest and trading income

Net interest and trading income from credit, interest rates and foreign exchange products of $A571 million for the year ended 31 March 2017 increased 65% from $A346 million in the prior year. Increased income in the current year was underpinned by contributions from the foreign exchange and interest rates markets due to ongoing market volatility associated with macro-economic events and uncertainty in US rates. The result also reflects improved performance of high yield debt markets and revenues from specialty lending products.

### Equities net interest and trading income

Equities net interest and trading income of $A289 million for the year ended 31 March 2017 decreased from $A519 million in the prior year, reflecting more challenging trading conditions with transaction volumes impacted by macro-economic uncertainty. The prior year benefited from strong equity markets activity, particularly in China.

### Fee and commission income

Fee and commission income of $A339 million for the year ended 31 March 2017 increased 3% from $A329 million in the prior year.

The increase was mainly driven by improved market volumes in futures markets driven by increased volatility, partially offset by a decrease in income from equities-related activities driven by market uncertainty that resulted in reduced client activity across Asia and reduced brokerage commission rates due to the trend towards lower margin platforms and pricing pressures.

### Net gains on sale of equity and debt investments

Net gains on sale of equity and debt investments of $A120 million for the year ended 31 March 2017 increased from $A31 million in the prior year due to gains on the sale of a number of investments, mainly in energy and related sectors.

### Impairment charge on equity investments, intangibles and other non-financial assets

The impairment charge on equity investments, intangibles and other non-financial assets of $A19 million for the year ended 31 March 2017 decreased 57% from $A44 million in the prior year mainly due to a reduction in the residual Metals and Energy Capital equity investment portfolio.

### Provisions for impairment and collective allowance for credit losses

Provisions for impairment and collective allowance for credit losses of $A138 million for the year ended 31 March 2017 decreased 52% from $A287 million in the prior year due to the business' reduced exposure to underperforming commodity-related loans.

### Operating expenses

Total operating expenses of $A1,447 million for the year ended 31 March 2017 decreased 4% from $A1,508 million in the prior year.

Employment expenses of $A295 million for the year ended 31 March 2017 decreased 13% from $A339 million in the prior year mainly due to lower headcount.

Brokerage, commission and trading-related expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related expenses of $A379 million for the year ended 31 March 2017 decreased 5% from $A401 million in the prior year mainly due to reduced equity-related trading activity in Asia and lower commodities-related trading activity.

Other operating expenses of $A773 million for the year ended 31 March 2017 were broadly in line with the prior year.

## 3.6 CORPORATE

| | HALF-YEAR TO | | | FULL-YEAR TO | | |
|---|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Movement % | Mar 17 $Am | Mar 16 $Am | Movement % |
| **Net interest and trading income/(expense)** | **16** | (8) | * | **8** | 216 | (96) |
| **Fee and commission expense** | **(4)** | (107) | (96) | **(111)** | (21) | * |
| **Net operating lease income** | **1** | 4 | (75) | **5** | 4 | 25 |
| **Share of net (losses)/profits of associates and joint ventures accounted for using the equity method** | **(8)** | (17) | (53) | **(25)** | 9 | * |
| **Other operating income and charges** | | | | | | |
| Net gains/(losses) on sale and reclassification of debt and equity securities | **2** | 46 | (96) | **48** | (28) | * |
| Impairment write back/(charge) on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses | **9** | 13 | (31) | **22** | (57) | * |
| Other income and charges | **(25)** | 1 | * | **(24)** | (18) | 33 |
| Total other operating income and charges | **(14)** | 60 | * | **46** | (103) | * |
| **Internal management charge** | **(47)** | (10) | * | **(57)** | (64) | (11) |
| **Net operating income** | **(56)** | (78) | (28) | **(134)** | 41 | * |
| **Operating expenses** | | | | | | |
| Employment expenses | **(270)** | (304) | (11) | **(574)** | (479) | 20 |
| Brokerage, commission and trading-related expenses | **(1)** | (2) | (50) | **(3)** | (3) | – |
| Other operating expenses | **(165)** | (18) | * | **(183)** | (98) | 87 |
| **Total operating expenses** | **(436)** | (324) | 35 | **(760)** | (580) | 31 |
| Income tax expense | **(254)** | (255) | (<1) | **(509)** | (681) | (25) |
| Macquarie Income Securities | **(7)** | (8) | (13) | **(15)** | (16) | (6) |
| Non-controlling interests[(1)] | **5** | 7 | (29) | **12** | 10 | 20 |
| **Net loss attributable to ordinary equity holders from continuing operations** | **(748)** | (658) | 14 | **(1,406)** | (1,226) | 15 |
| **Non-GAAP metrics** | | | | | | |
| Headcount | **31** | 41 | (24) | **31** | 40 | (23) |

(1) "Non-controlling interests" adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

The Corporate segment comprises head office and Central Service Groups, including Group Treasury, certain legacy investments, assets and businesses that are no longer core for strategic reasons and costs that are not allocated to Operating Groups, including performance-related profit share and share-based payments expense, and income tax expense.

## 3.6 CORPORATE CONTINUED

### Net interest and trading income

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for Macquarie Bank, earnings on capital, funding costs associated with non-core investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where designated hedge accounting is unable to be achieved for accounting purposes.

Net interest and trading income of $A8 million for the year ended 31 March 2017 decreased 96% from $A216 million in the prior year primarily due to the impact of accounting volatility on economically hedged positions that do not qualify for hedge accounting, lower earnings on capital following two Australian dollar interest rate cuts during the year and higher costs associated with managing Macquarie Bank's liquidity and funding position.

### Fee and commission expense

Fee and commission expense in the Corporate segment primarily comprises internal transactions between the Corporate segment and other segments within the Bank Group, and transactions between the Bank and Non-Bank Group.

Fee and commission expense of $A111 million for the year ended 31 March 2017 increased from $A21 million in the prior year primarily due to the increased recovery of costs to the Bank Group from the Non-Bank Group.

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

Share of net losses of associates and joint ventures of $A25 million for the year ended 31 March 2017 decreased from net profits of $A9 million in the prior year. The movement reflects the non-recurrence of gains on certain legacy real estate related investments and other non-core assets in the prior year.

### Net gains/(losses) on sale and reclassification of debt and equity securities

Net gains on sale and reclassification of debt and equity securities were $A48 million for the year ended 31 March 2017, compared to net losses of $A28 million in the prior year. The loss in the prior year largely resulted from the reclassification of legacy assets that were no longer held for strategic purposes. The income in the current year resulted from the disposal of these legacy assets and a number of investments held for the purposes of managing the Bank Group's liquidity.

### Impairment write back/(charge) on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses

Impairment write backs on investments, intangibles and other non-financial assets, and provisions for impairment and collective allowance for credit losses of $A22 million for the year ended 31 March 2017 decreased from an impairment charge of $A57 million in the prior year. The prior year included an increase to the central management overlay applied to the Consolidated Entity's collective provision to account for changes in economic conditions, and charges on legacy assets that are no longer strategic holdings.

The current year was impacted by changes in the underlying performance of central investments, which include certain legacy and other non-core assets

### Employment expenses

Employment expenses in the Corporate segment relate to employment costs associated with the Consolidated Entity's Central Service Groups including COG, FMG, RMG, Legal and Governance, and Central Executive, as well as performance-related profit share and share-based payments expense for the Consolidated Entity and the impact of fair value adjustments to Directors' Profit Share liabilities.

Employment expenses of $A574 million for the year ended 31 March 2017 increased 20% from $A479 million in the prior year. This was primarily due to increased share-based payments expense relating to increased retained equity awards granted in previous years and higher performance-related profit share expense, largely driven by the improved overall performance of the Operating Groups.

### Other operating expenses

Other operating expenses in the Corporate segment include non-employment related operating costs of central support functions and fees for services provided by entities outside of the Bank Group. These are partially offset by the recovery of central support function costs (including employment-related costs) from the Operating Groups.

Other operating expenses of $A183 million for the year ended 31 March 2017 increased 87% from $A98 million in the prior year reflecting increased fees for services provided by entities outside of the Bank Group.

# BALANCE SHEET

# 4

## 4.1 STATEMENT OF FINANCIAL POSITION

| | AS AT | | | MOVEMENT | |
|---|---|---|---|---|---|
| | Mar 17 $Am | Sep 16 $Am | Mar 16 $Am | Sep 16 % | Mar 16 % |
| **Assets** | | | | | |
| Receivables from financial institutions | **25,565** | 30,679 | 30,956 | (17) | (17) |
| Trading portfolio assets | **26,637** | 27,029 | 23,062 | (1) | 16 |
| Derivative assets | **12,067** | 15,211 | 17,962 | (21) | (33) |
| Investment securities available for sale | **5,182** | 5,314 | 9,008 | (2) | (42) |
| Other assets | **8,646** | 8,102 | 6,918 | 7 | 25 |
| Loan assets held at amortised cost | **75,550** | 76,672 | 78,913 | (1) | (4) |
| Other financial assets at fair value through profit or loss | **760** | 768 | 1,057 | (1) | (28) |
| Due from related body corporate entities | **1,733** | 1,544 | 1,610 | 12 | 8 |
| Property, plant and equipment | **10,743** | 10,735 | 11,304 | <1 | (5) |
| Interests in associates and joint ventures accounted for using the equity method | **203** | 243 | 426 | (16) | (52) |
| Intangible assets | **193** | 189 | 224 | 2 | (14) |
| Deferred tax assets | **162** | 155 | 169 | 5 | (4) |
| **Total assets** | **167,441** | 176,641 | 181,609 | (5) | (8) |
| **Liabilities** | | | | | |
| Trading portfolio liabilities | **4,922** | 5,051 | 4,794 | (3) | 3 |
| Derivative liabilities | **11,101** | 12,908 | 14,713 | (14) | (25) |
| Deposits | **57,682** | 55,433 | 52,228 | 4 | 10 |
| Other liabilities | **9,375** | 7,576 | 7,121 | 24 | 32 |
| Payables to financial institutions | **14,236** | 20,826 | 20,555 | (32) | (31) |
| Debt issued at amortised cost | **43,137** | 48,978 | 55,142 | (12) | (22) |
| Other financial liabilities at fair value through profit or loss | **1,934** | 2,591 | 2,307 | (25) | (16) |
| Due to related body corporate entities | **7,367** | 6,600 | 7,555 | 12 | (2) |
| Deferred tax liabilities | **484** | 372 | 406 | 30 | 19 |
| **Total liabilities excluding loan capital** | **150,238** | 160,335 | 164,821 | (6) | (9) |
| **Loan capital** | **4,615** | 3,811 | 4,078 | 21 | 13 |
| **Total liabilities** | **154,853** | 164,146 | 168,899 | (6) | (8) |
| **Net assets** | **12,588** | 12,495 | 12,710 | 1 | (1) |
| **Equity** | | | | | |
| Contributed equity | **9,911** | 9,891 | 9,882 | <1 | <1 |
| Reserves | **373** | 330 | 483 | 13 | (23) |
| Retained earnings | **2,296** | 2,270 | 2,333 | 1 | (2) |
| **Total capital and reserves attributable to ordinary equity holders of Macquarie Bank Limited** | **12,580** | 12,491 | 12,698 | 1 | (1) |
| Non-controlling interests | **8** | 4 | 12 | 100 | (33) |
| **Total equity** | **12,588** | 12,495 | 12,710 | 1 | (1) |

## 4.1 STATEMENT OF FINANCIAL POSITION CONTINUED

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

### Assets

Total assets of $A167.4 billion at 31 March 2017 decreased 8% from $A181.6 billion at 31 March 2016 mainly due to reductions in Receivables from financial institutions, Derivative assets, Investment securities available for sale and Loan Assets held at amortised cost. These decreases were partially offset by increases in Trading portfolio assets and Other assets.

- 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 due to repayments in the Lending portfolio; and
  - BFS' disposal of the US mortgage portfolio and the wind down of the Canadian mortgage portfolio, partially offset by increased Australian loan volumes.
- 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.

### Liabilities

Total liabilities of $A154.9 billion at 31 March 2017 decreased 8% from $A168.9 billion at 31 March 2016 mainly driven 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.

### Equity

Total equity decreased 1% to $A12.6 billion at 31 March 2017 from $A12.7 billion at 31 March 2016.

- 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.

### 4.2 LOAN ASSETS

Reconciliation between the statement of financial position and the funded balance sheet:

| | AS AT | | | MOVEMENT | |
|---|---|---|---|---|---|
| | Mar 17 $Ab | Sep 16 $Ab | Mar 16 $Ab | Sep 16 % | Mar 16 % |
| **Loan assets at amortised cost per the statement of financial position** | **75.6** | 76.7 | 78.9 | (1) | (4) |
| Other loans held at fair value(1) | **0.2** | 0.1 | 0.2 | 100 | – |
| Operating lease assets | **10.0** | 9.9 | 10.6 | 1 | (6) |
| Other reclassifications(2) | **1.1** | 1.6 | 1.6 | (31) | (31) |
| Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers(3) | **(13.4)** | (14.7) | (15.8) | (9) | (15) |
| Less: segregated funds(4) | **(4.6)** | (5.0) | (4.4) | (8) | 5 |
| Less: margin balances (reclassed to trading)(5) | **(2.7)** | (1.7) | (3.6) | 59 | (25) |
| **Total loan assets including operating lease assets per the funded balance sheet(6)** | **66.2** | 66.9 | 67.5 | (1) | (2) |

(1) Excludes other loans held at fair value that are self-funded.
(2) Reclassification between loan assets and other funded balance sheet categories.
(3) Excludes notes held by Macquarie Bank in consolidated Special Purpose Entities (SPE).
(4) These represent the assets and liabilities that are recognised where Macquarie Bank holds segregated client monies. The client monies will be matched by assets held to the same amount and hence does not require funding.
(5) For the purposes of the funded balance sheet, margin balances are treated as trading assets rather than loan assets.
(6) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.

## 4.2 LOAN ASSETS CONTINUED

Loan assets[1] including operating lease assets by Operating Group per the funded balance sheet are shown in further detail below:

| | | AS AT | | | MOVEMENT | |
|---|---|---|---|---|---|---|
| | Notes | Mar 17 $Ab | Sep 16 $Ab | Mar 16 $Ab | Sep 16 % | Mar 16 % |
| CAF | | | | | | |
| Asset Finance: | 1 | | | | | |
| Finance lease assets | | **12.0** | 13.1 | 12.6 | (8) | (5) |
| Operating lease assets | | **10.0** | 9.9 | 10.6 | 1 | (6) |
| Total Asset Finance | | **22.0** | 23.0 | 23.2 | (4) | (5) |
| Lending | 2 | **6.5** | 8.0 | 9.0 | (19) | (28) |
| **Total CAF** | | **28.5** | 31.0 | 32.2 | (8) | (11) |
| BFS | | | | | | |
| Retail Mortgages: | 3 | | | | | |
| Australia | | **24.0** | 22.9 | 21.6 | 5 | 11 |
| Canada, US and Other | | **0.5** | 0.6 | 1.5 | (17) | (67) |
| Total Retail Mortgages | | **24.5** | 23.5 | 23.1 | 4 | 6 |
| Business banking | 4 | **6.1** | 6.0 | 5.8 | 2 | 5 |
| **Total BFS** | | **30.6** | 29.5 | 28.9 | 4 | 6 |
| CGM | | | | | | |
| Resources and commodities | 5 | **2.5** | 2.4 | 3.0 | 4 | (17) |
| Other | 6 | **2.6** | 2.7 | 1.8 | (4) | 44 |
| **Total CGM** | | **5.1** | 5.1 | 4.8 | – | 6 |
| MAM | | | | | | |
| Structured investments | 7 | **2.0** | 1.3 | 1.6 | 54 | 25 |
| **Total** | | **66.2** | 66.9 | 67.5 | (1) | (2) |

(1) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.

## 4.2 LOAN ASSETS CONTINUED

### Explanatory notes concerning asset security of funded loan asset portfolio

1. Asset Finance

Secured by underlying financed assets.

2. Lending

Diversified corporate and real estate lending portfolio, predominately consisting of loans which are senior, secured, well covenanted and with a hold to maturity horizon.

3. Retail Mortgages

Secured by residential property and supported by mortgage insurance:

- Australia: most loans are fully mortgage insured;
- Canada: most loans are fully insured with underlying government support.

4. Business banking

Secured relationship managed loan portfolio to professional and financial services firms, real estate industry clients, insurance premium funding, mortgages to Business Banking clients and other small business clients. Secured largely by real estate, working capital, business cash flows and credit insurance. The portfolio also includes other retail lending including credit cards.

5. Resources and commodities

Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets.

6. Other

Predominately relates to recourse loans to financial institutions, as well as financing for real estate and other sectors.

7. Structured investments

Loans to retail and wholesale counterparties that are secured against equities, investment funds or cash, or are protected by capital guarantees at maturity.

## 4.3 EQUITY INVESTMENTS

Equity investments are reported in the following categories in the statement of financial position:

- other financial assets at fair value through profit or loss;
- investment securities available for sale;
- interests in associates and joint ventures; and
- other assets.

**Equity investments reconciliation**

| | AS AT | | | MOVEMENT | |
|---|---|---|---|---|---|
| | Mar 17 $Ab | Sep 16 $Ab | Mar 16 $Ab | Sep 16 % | Mar 16 % |
| **Equity investments** | | | | | |
| **Statement of financial position** | | | | | |
| Equity investments within other financial assets at fair value through profit or loss | **0.4** | 0.4 | 0.8 | – | (50) |
| Equity investments within investment securities available for sale | **0.6** | 0.4 | 0.4 | 50 | 50 |
| Interests in associates and joint ventures accounted for using the equity method | **0.2** | 0.2 | 0.4 | – | (50) |
| Held for sale equity investments within other assets | **–** | 0.2 | 0.3 | (100) | (100) |
| **Total equity investments per statement of financial position** | **1.2** | 1.2 | 1.9 | – | (37) |
| **Adjustment for funded balance sheet** | | | | | |
| Equity hedge positions[(1)] | **(0.4)** | (0.4) | (0.8) | – | (50) |
| **Total funded equity investments** | **0.8** | 0.8 | 1.1 | – | (27) |
| **Adjustments for equity investments analysis** | | | | | |
| Available for sale and associates' reserves[(2)] | **(0.1)** | (0.1) | (0.1) | – | – |
| **Total adjusted equity investments[(3)]** | **0.7** | 0.7 | 1.0 | – | (30) |

(1) These relate to assets held for the purposes of economically hedging Macquarie Bank's fair valued liabilities to external parties arising from various equity linked instruments. Consequently, these have been excluded from the analysis of equity investment exposures.

(2) Available for sale reserve on equity investments (gross of tax) that will be released to income upon realisation of the investment, excluding investments in which Macquarie Bank has no economic exposure; Associates' reserves (gross of tax) that will be released to income upon realisation of the investment.

(3) The adjusted book value represents the total net exposure to Macquarie Bank.

# FUNDING AND LIQUIDITY

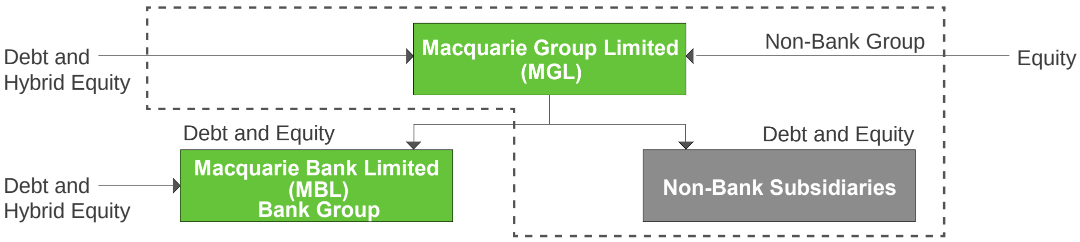
# 5

## 5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK

### Governance and Oversight

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

The high level funding structure of the Group is shown below:




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 the Risk Management Group (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 Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, 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

Macquarie Group maintains two key liquidity policies:

- The MGL liquidity policy: applies to all Macquarie Group entities except the Bank Group.
- The MBL liquidity policy: applies to the Bank Group.

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

Macquarie Group establishes a liquidity risk appetite for both MGL and MBL, which is defined within each of the respective liquidity policies. The risk appetite is approved by each Board and represents an articulation of the nature and level of liquidity risk that is acceptable in the context of achieving Macquarie Group’s strategic objectives.

**Macquarie Bank Limited**

MBL’s liquidity risk appetite ensures that the Bank Group 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 Authorised Deposit-taking Institution (ADI) and is funded mainly with capital, long-term liabilities and deposits.

## 5.1 LIQUIDITY RISK GOVERNANCE AND MANAGEMENT FRAMEWORK CONTINUED

### Liquidity Risk Tolerance and Principles

Macquarie Group's liquidity risk appetite is supported by a number of risk tolerances and principles applied to managing liquidity risk in both MGL and MBL.

#### Risk Tolerances

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

#### Liquidity Management Principles

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

### Liquidity Contingency Plan

Group Treasury maintains a liquidity contingency plan, which outlines how a liquidity 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 and contact lists to facilitate prompt communication with all key internal and external stakeholders. The plan also incorporates a retail run management plan (RRMP) that outlines the Bank's processes and operational plans for managing a significant increase in customer withdrawals during a potential deposit 'run' on Macquarie Group.

In addition, Macquarie Group monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie Group's liquidity position. These indicators are reviewed by senior management and are used to inform any decisions regarding invoking the plan.

The liquidity contingency plan is subject to regular review by both Group Treasury and RMG. It is submitted to the ALCO for approval.

Macquarie Group 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 respective Boards.

## 5.2 MANAGEMENT OF LIQUIDITY RISK

### 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 specific crises. Scenario analysis performs a range of functions within the liquidity risk management framework, including:

- monitoring compliance with internal liquidity risk appetite statements by ensuring all repayment obligations can be met in the corresponding scenarios;
- determining Macquarie Group's minimum level of cash and liquid assets;
- determining the appropriate minimum tenor of funding for Macquarie Group's assets; and
- determining the overall capacity for future asset growth.

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

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market wide and Macquarie Group name specific crisis over a twelve 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 in the Consolidated Entity to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and minimum regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High Quality Liquid Assets (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 also 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. Certain other business units also hold cash and liquid assets as part of their operations. The Bank Group had $A20.0 billion cash and liquid assets as at 31 March 2017 (31 March 2016: $A28.9 billion).

### 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 Macquarie Group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

## 5.2 MANAGEMENT OF LIQUIDITY RISK CONTINUED

### Credit ratings[1] at 31 March are detailed below.

| | Macquarie Bank Limited | | |
|---|---|---|---|
| | Short term rating | Long term rating | Outlook |
| Moody's Investors Service | P-1 | A2 | Stable |
| Standard and Poor's[2] | A-1 | A | Negative |
| Fitch Ratings | F-1 | A | Stable |

(1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

(2) Standard and Poor's does not place outlook statements on short-term ratings.

### Regulatory developments

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS210) details the local implementation of the Basel III liquidity framework for Australian banks. The current standard incorporates the Liquidity Coverage Ratio (LCR) as well as a range of additional qualitative requirements. APRA have also finalised a revised APS210 which incorporates the Net Stable Funding Ratio (NSFR) rules, however the exact application of certain elements of the standard remains under discussion. The revised APS210 will come into effect from 1 January 2018.

As the regulated ADI in the Macquarie Group, the LCR and associated regulatory requirements apply specifically to Macquarie Bank.

#### Liquidity Coverage Ratio

The LCR requires sufficient levels of unencumbered HQLA to be held to meet expected net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days. In Australia, HQLA includes cash, balances held with the RBA, Commonwealth Government and semi-government securities, as well as any CLF allocation. The LCR determines Macquarie Bank's regulatory minimum required level of liquid assets.

Macquarie Bank has been compliant with the LCR at all times since the ratio became a minimum requirement on 1 January 2015. Macquarie Bank's 3-month average LCR to 31 March 2017 was 168% (average based on daily observations). For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie Group's regulatory disclosures (available on Macquarie Group's website).

#### Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is a 12-month structural funding metric, requiring that 'available stable funding' be sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than twelve months. The NSFR will become a regulatory requirement on 1 January, 2018. Macquarie Bank's NSFR at 31 March 2017 was greater than 100% and Macquarie Bank expects to continue to meet the requirements of the NSFR.

## 5.3 FUNDED BALANCE SHEET

The Bank Group's statement of financial position is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self-funded assets that do not represent a funding requirement of the Bank Group.

The table below reconciles the reported assets of the Bank Group to the net funded assets as at 31 March 2017.

| | | AS AT | |
|---|---|---|---|
| | Notes | Mar 17 $Ab | Mar 16 $Ab |
| Total assets per the Bank Group's statement of financial position | | **167.4** | 181.6 |
| Accounting deductions: | | | |
| Self-funded trading assets | 1 | **(14.4)** | (16.1) |
| Derivative revaluation accounting gross-ups | 2 | **(10.6)** | (14.4) |
| Life investment contracts and other segregated assets | 3 | **(9.6)** | (8.4) |
| Outstanding trade settlement balances | 4 | **(3.4)** | (2.1) |
| Short term working capital assets | 5 | **(4.0)** | (3.6) |
| Intercompany gross-ups | | **(7.3)** | (7.4) |
| Non-recourse funded assets: | | | |
| Securitised assets and other non-recourse funding | 6 | **(13.5)** | (15.0) |
| **Net funded assets** | | **104.6** | 114.6 |

### Explanatory notes concerning net funded assets

#### 1. Self-funded trading assets

The Bank Group enters into stock borrowing and lending as well as repurchase agreements and reverse repurchase agreements in the normal course of trading activity that it conducts with its clients and counterparties. Also as part of its trading activities, The Bank Group pays and receives margin collateral on its outstanding derivative positions. These trading related asset and liability positions are presented gross on the statement of financial position but are viewed as being self funded to the extent that they offset one another and, therefore, are netted as part of this adjustment.

#### 2. Derivative revaluation accounting gross-ups

The Bank Group's derivative activities are mostly client driven with client positions hedged by offsetting positions with a variety of counterparties. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding.

#### 3. Life investment contracts and other segregated assets

These represent the assets and liabilities that are recognised where the Bank Group provides products such as investment-linked policy contracts or where the Bank Group holds segregated client monies. The policy (contract) liability and client monies will be matched by assets held to the same amount and hence do not require funding.

#### 4. Outstanding trade settlement balances

At any particular time the Bank Group will have outstanding trades to be settled as part of its brokering business and trading activities. These amounts (payables) can be offset in terms of funding by amounts that the Bank Group is owed on other trades (receivables).

#### 5. Short term working capital assets

As with the outstanding trade settlement balances above, The Bank Group through its day-to-day operations generates working capital assets (e.g. receivables and prepayments) and working capital liabilities (e.g. creditors and accruals) that produce a 'net balance' that either requires or provides funding.

#### 6. Securitised assets and other non-recourse funding

These represent assets that are funded by third parties with no recourse to Macquarie Group including lending assets (mortgages and leasing) sold down into external securitisation entities.

## 5.4 FUNDING PROFILE

### Funded balance sheet

| | Notes | AS AT Mar 17 $Ab | AS AT Mar 16 $Ab |
|---|---|---|---|
| **Funding sources** | | | |
| Wholesale issued paper: | 1 | | |
| Certificates of deposit | | **0.9** | 0.4 |
| Commercial paper | | **5.7** | 8.9 |
| Net trade creditors | 2 | **1.6** | 1.4 |
| Structured notes | 3 | **2.6** | 3.0 |
| Secured funding[(1)] | 4 | **4.4** | 5.2 |
| Bonds[(1)] | 5 | **21.7** | 29.1 |
| Other loans | 6 | **0.3** | 0.2 |
| Syndicated loan facilities | 7 | **2.4** | 6.0 |
| Customer deposits | 8 | **47.8** | 43.6 |
| Loan capital | 9 | **4.6** | 4.1 |
| Equity and hybrid | 10 | **12.6** | 12.7 |
| **Total** | | **104.6** | 114.6 |
| **Funded assets** | | | |
| Cash and liquid assets | 11 | **20.0** | 28.9 |
| Self-securitisation | 12 | **16.5** | 13.9 |
| Net trading assets | 13 | **21.8** | 20.4 |
| Loan assets including operating lease assets less than one year | 14 | **13.6** | 12.5 |
| Loan assets including operating lease assets greater than one year | 14 | **36.1** | 41.1 |
| Debt investment securities | 15 | **1.9** | 2.2 |
| Non-Bank Group deposit with MBL | | **(6.7)** | (6.2) |
| Co-investment in Macquarie-managed funds and other equity investments | 16 | **0.8** | 1.1 |
| Property, plant and equipment and intangibles | | **0.6** | 0.7 |
| **Total** | | **104.6** | 114.6 |

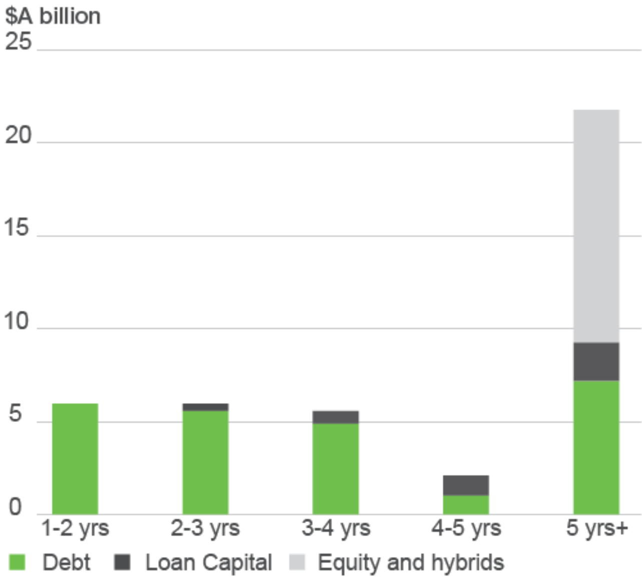
(1) Covered bonds have been reclassified as Secured Funding, previously classified as Bonds. Accordingly, the March 2016 positions have been restated.

See Section 5.5 for notes 1–16.

## 5.4 FUNDING PROFILE CONTINUED

### Term funding profile

Detail of drawn term funding maturing beyond one year




| | AS AT MAR 17 | | | | | |
|---|---|---|---|---|---|---|
| | 1-2yrs $Ab | 2-3yrs $Ab | 3-4yrs $Ab | 4-5yrs $Ab | 5yrs+ $Ab | Total $Ab |
| Structured notes[1] | 0.1 | 0.2 | – | – | 1.8 | **2.1** |
| Secured funding[2] | 0.5 | 0.2 | 0.9 | 0.2 | 1.7 | **3.5** |
| Bonds[2] | 3.7 | 5.2 | 3.3 | 0.8 | 3.7 | **16.7** |
| Syndicated loan facilities | 1.7 | – | 0.7 | – | – | **2.4** |
| **Total debt** | **6.0** | **5.6** | **4.9** | **1.0** | **7.2** | **24.7** |
| Loan capital[3] | – | 0.4 | 0.7 | 1.1 | 2.1 | **4.3** |
| Equity and hybrid | – | – | – | – | 12.6 | **12.6** |
| **Total funding sources drawn** | **6.0** | **6.0** | **5.6** | **2.1** | **21.9** | **41.6** |
| Undrawn | – | – | – | – | – | – |
| **Total funding sources drawn and undrawn** | **6.0** | **6.0** | **5.6** | **2.1** | **21.9** | **41.6** |

(1) Structured notes are profiled using a behavioural maturity profile

(2) Covered Bonds have been reclassified as Secured Funding, previously classified as Bonds

(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity

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.

As at 31 March 2017, customer deposits represented $A47.8 billion, or 46% of the Bank Group's total funding, short term (maturing in less than 12 months) wholesale issued paper represented $A6.6 billion, or 6% of total funding, and other debt funding maturing within 12 months represented $A8.6 billion, or 8% of total funding.

## 5.4 FUNDING PROFILE CONTINUED

### Term funding initiatives

Macquarie Group 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 Group 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 by the Bank Group:

| | | | Bank Group $Ab |
|---|---|---|---|
| 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 | – | MBL loan facilities | 0.3 |
| **Total** | | | **7.1** |

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

From 1 April 2016 to 31 March 2017, the Bank Group raised $A7.1 billion of term funding including: $A2.9 billion of term secured finance, $A2.4 billion in term loans (AWAS), $A0.5 billion of term wholesale issued paper, $A1.0 billion of perpetual subordinated capital securities (MACS) and $A0.3 billion of loan facilities. Term secured finance includes $A2.9 billion of SMART auto and equipment ABS. Term wholesale issued paper includes $A0.5 billion in private placements and structured notes. MBL loan facilities of $A0.3 billion were added to the existing MBL Sterling Facility that was established in FY16.

## 5.4 FUNDING PROFILE CONTINUED

The key tools used for accessing wholesale debt funding markets for MBL, which primarily funds the Bank Group are as follows:

- $US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro-Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had $US10.9 billion debt securities outstanding at 31 March 2017;
- $US10 billion Commercial Paper Program under which $US4.1 billion of debt securities were outstanding at 31 March 2017;
- $US20 billion US Rule 144A/Regulation S Medium Term Note Program under which $US8.4 billion of issuances were outstanding at 31 March 2017;
- $US5 billion Structured Note Program under which $US2.2 billion of funding from structured notes was outstanding at 31 March 2017;
- £1.5 billion Sterling Facility under which £1.5 billion was outstanding at 31 March 2017; and
- $A5 billion Covered Bond Programme under which $A0.7 billion of debt securities were outstanding at 31 March 2017.
- $US1.8 billion AWAS term loan under which $US1.8 billion of secured funding was outstanding at 31 March 2017.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. At 31 March 2017, Macquarie Bank had $A0.6 billion of these securities outstanding.

At 31 March 2017, Macquarie Bank had internally securitised $A16.5 billion of its own mortgages.

Macquarie Bank, as an ADI, has access to liquidity from the RBA daily market operations.

### Deposit strategy

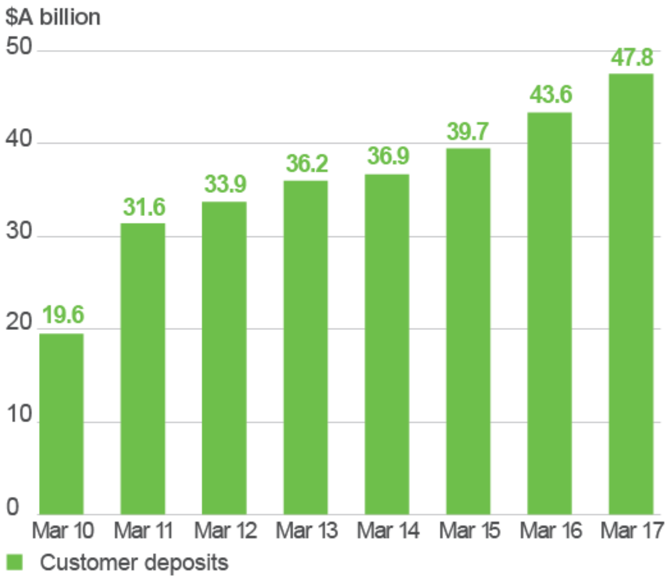
MBL continues to pursue a deposit strategy that is consistent with the core liquidity management tolerance of achieving diversity and stability of funding sources. The strategy is focused on growing the BFS deposit base, which represents a stable and reliable source of funding and reduces Macquarie Group's reliance on wholesale funding markets.

In particular, MBL has focused on the quality and composition of the deposit base, targeting transactional and relationship based deposits such as the Cash Management Account (CMA).

The majority of MBL's deposits continue to be covered by the Financial Claims Scheme. The value cap on the deposits is set at $A250,000 per account holder.

The chart below illustrates the customer deposit growth since 31 March 2010.

Deposit trend



## 5.5 EXPLANATORY NOTES CONCERNING FUNDING SOURCES AND FUNDED ASSETS

1. Wholesale issued paper

Unsecured short term wholesale funding comprised of both Certificates of Deposit and Commercial Paper.

2. Net trade creditors

Short term working capital balances (debtors and creditors) are created through Macquarie Group's day-to-day operations. A net funding use (or source) will result due to timing differences in cash flows.

3. Structured notes

Includes debt instruments on which the return is linked to a number of variables including interest rates, currencies, equities and credit. They are generally issued as part of structured transactions with clients and are hedged with positions in underlying assets or derivative instruments.

4. Secured funding

Certain funding arrangements secured against an asset (or pool of assets).

5. Bonds

Unsecured long term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

Unsecured funding from BFS, corporate and wholesale depositors. The Australian Government Financial Claims Scheme covers eligible deposits in Macquarie Bank.

9. Loan capital

Long term subordinated debt, Macquarie Additional Capital Securities, Bank Capital Notes and Exchangeable Capital Securities.

10. Equity and hybrid

Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include MIS.

11. Cash and liquid assets

Cash and liquid assets generally consist of amounts due from banks and liquid debt investment securities available for sale. Liquid assets are almost entirely repo eligible with central banks or are very short dated.

12. Self securitisation

This represents Australian mortgages which have been internally securitised and is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

13. Net trading assets

The net trading asset balance consists of financial markets and equity trading assets including the net derivative position and any margin or collateral balances. It also includes trading assets which are hedging structured notes issued.

14. Loan assets including operating lease assets

This represents loans provided to retail and wholesale borrowers, as well as assets held under operating leases.

See section 4.2 for further information.

15. Debt investment securities

These include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

16. Co-investment in Macquarie-managed funds and other equity investments

These equity securities include co-investments in Macquarie-managed funds.

# CAPITAL

# 6

## 6.1 OVERVIEW

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

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

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

Eligible regulatory capital of Macquarie Group consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 31 March 2017 include the Macquarie Income Securities (MIS), Exchangeable Capital Securities (ECS), Macquarie Bank Capital Notes (BCN), Macquarie Additional Capital Securities (MACS), Macquarie Group Capital Notes (MCN) and Macquarie Group Capital Notes 2 (MCN2).

Capital disclosures in this section include Harmonised Basel III(1) and APRA Basel III(2). The former is relevant for comparison with banks regulated by regulators other than APRA, whereas the latter reflects Macquarie Group's regulatory requirements under APRA Basel III rules.

**Pillar 3**

The APRA ADI Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (Pillar 3) details the market disclosure requirements for Australian domiciled banks. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy. Pillar 3 documents are available on Macquarie Group's website.

(1) Harmonised Basel III relates to the Basel III guidelines defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS).
(2) APRA Basel III relates to the ADI Prudential Standards released by APRA for the period effective from 1 January 2013.

## 6.2 BANK GROUP CAPITAL

The Bank Group is accredited by APRA under the Basel 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 (IRRBB).

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

### Common Equity Tier 1 capital

The Bank Group's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves.

### Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 31 March 2017 consists of MIS, ECS, BCN and MACS. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

MIS are a perpetual instrument with no conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) in 1999. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of the Bank. MIS are eligible for transitional arrangements under Basel III rules.

ECS were issued by MBL acting through its London Branch (Issuer) in March 2012 and are quoted on the Singapore Stock Exchange. Subject to certain conditions, ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017 (or earlier in certain circumstances). ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of the Issuer. APRA has approved ECS to be fully included in Additional Tier 1 until its first mandatory exchange date. Subsequent to 31 March 2017, MBL announced that it intends to buy back $US250 million ECS in June 2017.

BCN were issued by MBL in October 2014 and are quoted on the Australian Securities Exchange. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 330 basis points margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that BCN are eligible for inclusion as Additional Tier 1 capital.

MACS were issued by MBL, acting through its London Branch in March 2017. MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5 anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that MACS are eligible for inclusion as Additional Tier 1 capital.

## 6.2 BANK GROUP CAPITAL CONTINUED

### Bank Group Basel III Tier 1 Capital

| | AS AT MAR 17 | | AS AT SEP 16 | | MOVEMENT | |
|---|---|---|---|---|---|---|
| | Harmonised Basel III $Am | APRA Basel III $Am | Harmonised Basel III $Am | APRA Basel III $Am | Harmonised Basel III % | APRA Basel III % |
| **Common Equity Tier 1 capital** | | | | | | |
| Paid-up ordinary share capital | **9,520** | **9,520** | 9,500 | 9,500 | <1 | <1 |
| Retained earnings | **2,354** | **2,354** | 2,139 | 2,139 | 10 | 10 |
| Reserves | **411** | **411** | 368 | 368 | 12 | 12 |
| **Gross Common Equity Tier 1 capital** | **12,285** | **12,285** | 12,007 | 12,007 | 2 | 2 |
| **Regulatory adjustments to Common Equity Tier 1 capital:** | | | | | | |
| Goodwill | **37** | **37** | 46 | 46 | (20) | (20) |
| Deferred tax assets | **57** | **157** | 74 | 149 | (23) | 5 |
| Net other fair value adjustments | **(104)** | **(104)** | (128) | (128) | (19) | (19) |
| Intangible component of investments in subsidiaries and other entities | **51** | **51** | 39 | 39 | 31 | 31 |
| Loan and lease origination fees and commissions paid to mortgage originators and brokers | **–** | **349** | – | 320 | – | 9 |
| Shortfall in provisions for credit losses | **316** | **338** | 283 | 304 | 12 | 11 |
| Equity exposures | **–** | **1,179** | – | 1,257 | – | (6) |
| Other Common Equity Tier 1 capital deductions | **103** | **254** | 103 | 263 | – | (3) |
| Total Common Equity Tier 1 capital deductions | **460** | **2,261** | 417 | 2,250 | 10 | <1 |
| **Net Common Equity Tier 1 capital** | **11,825** | **10,024** | 11,590 | 9,757 | 2 | 3 |
| **Additional Tier 1 Capital** | | | | | | |
| Additional Tier 1 capital instruments | **1,970** | **1,970** | 1,036 | 1,036 | 90 | 90 |
| **Gross Additional Tier 1 capital** | **1,970** | **1,970** | 1,036 | 1,036 | 90 | 90 |
| Deduction from Additional Tier 1 capital | **–** | **–** | – | – | – | – |
| **Net Additional Tier 1 capital** | **1,970** | **1,970** | 1,036 | 1,036 | 90 | 90 |
| **Total Net Tier 1 capital** | **13,795** | **11,994** | 12,626 | 10,793 | 9 | 11 |

## 6.2 BANK GROUP CAPITAL CONTINUED

### Bank Group Basel III Risk-Weighted Assets (RWA)

| | AS AT MAR 17 | | AS AT SEP 16 | | MOVEMENT | |
|---|---|---|---|---|---|---|
| | Harmonised Basel III $Am | APRA Basel III $Am | Harmonised Basel III $Am | APRA Basel III $Am | Harmonised Basel III % | APRA Basel III % |
| **Credit risk** | | | | | | |
| Subject to IRB approach: | | | | | | |
| Corporate | **27,473** | **27,473** | 27,150 | 27,150 | 1 | 1 |
| SME Corporate | **2,830** | **2,830** | 2,704 | 2,704 | 5 | 5 |
| Sovereign | **227** | **227** | 294 | 294 | (23) | (23) |
| Bank | **1,175** | **1,175** | 1,353 | 1,353 | (13) | (13) |
| Residential mortgage | **4,886** | **10,545** | 5,112 | 10,688 | (4) | (1) |
| Other retail | **3,642** | **3,642** | 4,575 | 4,575 | (20) | (20) |
| Retail SME | **2,885** | **2,961** | 2,818 | 2,949 | 2 | <1 |
| **Total RWA subject to IRB approach** | **43,118** | **48,853** | 44,006 | 49,713 | (2) | (2) |
| **Specialised lending exposures subject to slotting criteria** | **6,277** | **6,277** | 6,354 | 6,354 | (1) | (1) |
| Subject to Standardised approach: | | | | | | |
| Corporate | **794** | **794** | 776 | 776 | 2 | 2 |
| Residential mortgage | **1,634** | **1,634** | 1,520 | 1,520 | 8 | 8 |
| Other Retail | **5,755** | **5,755** | 6,986 | 6,986 | (18) | (18) |
| **Total RWA subject to Standardised approach** | **8,183** | **8,183** | 9,282 | 9,282 | (12) | (12) |
| **Credit risk RWA for securitisation exposures** | **573** | **441** | 597 | 493 | (4) | (11) |
| **Credit Valuation Adjustment RWA** | **2,457** | **2,457** | 2,907 | 2,907 | (15) | (15) |
| **Exposures to Central Counterparties RWA** | **706** | **1,232** | 1,063 | 1,374 | (34) | (10) |
| **RWA for Other Assets** | **9,156** | **8,554** | 9,511 | 9,001 | (4) | (5) |
| **Total Credit risk RWA** | **70,470** | **75,997** | 73,720 | 79,124 | (4) | (4) |
| **Equity risk exposures RWA** | **4,224** | **–** | 4,301 | – | (2) | – |
| **Market risk RWA** | **3,958** | **3,958** | 4,298 | 4,298 | (8) | (8) |
| **Operational risk RWA** | **9,979** | **9,979** | 9,531 | 9,531 | 5 | 5 |
| **Interest rate risk in banking book RWA** | **–** | **82** | – | 645 | – | (87) |
| **Total Bank Group RWA** | **88,631** | **90,016** | 91,850 | 93,598 | (4) | (4) |
| **Capital ratios** | | | | | | |
| Bank Group Common Equity Tier 1 capital ratio (%) | **13.3** | **11.1** | 12.6 | 10.4 | | |
| Bank Group Tier 1 capital ratio (%) | **15.6** | **13.3** | 13.7 | 11.5 | | |

# GLOSSARY

# Glossary

# 7

## 7.0 GLOSSARY CONTINUED

| | |
|---|---|
| **AASB** | Australian Accounting Standards Board. |
| **ABS** | Asset Backed Securities. |
| **ADI** | Authorised Deposit–taking Institution. |
| **Additional Tier 1 Capital** | A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics:<br>– provide a permanent and unrestricted commitment of funds;<br>– are freely available to absorb losses;<br>– rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and<br>– provide for fully discretionary capital distributions. |
| **Additional Tier 1 deductions** | An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital. |
| **ALCO** | The Asset and Liability Committee. |
| **AMA** | Advanced Measurement Approach (for determining operational risk). |
| **APRA** | Australian Prudential Regulation Authority. |
| **Associates** | Associates are entities over which Macquarie Bank has significant influence, but not control.<br>Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity–accounted. Macquarie Bank's share of the investment's post acquisition profits and losses is recognised in the income statement and its share of post–acquisition movements in reserves is recognised within equity. |
| **AVS** | Available for sale. AVS assets are investments where Macquarie Bank does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially carried at fair value plus transaction costs and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement. |
| **Bank Group** | MBL and its subsidiaries. |
| **Banking Group** | The Banking Group comprises BFS, CAF, and some activities of CGM and MAM. |
| **Basel III IRB Formula** | A formula to calculate RWA, as defined in Prudential Standard APS 113 Capital Adequacy: Internal Ratings–based Approach to Credit Risk. |
| **BCN** | On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of $A100 each. BCN are subordinated, unsecured notes that pay discretionary, non–cumulative, semi–annual floating rate cash distributions 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.<br>BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non–viable without an exchange or a public sector injection of capital (or equivalent support). |
| **BBSW** | Bank Bill Swap Rate. |
| **BFS** | Banking and Financial Services. |
| **BFS deposits** | BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Counterparties primarily consist of individuals, self–managed super funds and small–medium enterprises. |
| **BIS** | Bank for International Settlements. |
| **CAF** | Corporate and Asset Finance. |
| **CCB** | Capital Conservation Buffer. |

## 7.0 GLOSSARY CONTINUED

| | |
|---|---|
| **Central Service Groups** | The Central Service Groups consist of Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive. |
| **CGM** | Commodities and Global Markets. |
| **CLF** | Committed Liquidity Facility. |
| **CMA** | Cash Management Account. |
| **Collective allowance for credit losses** | The provision relating to losses inherent in a portfolio of loan assets or debt investment securities available for sale that have not yet been specifically identified. |
| **Common Equity Tier 1 Capital** | A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics:<br>– provide a permanent and unrestricted commitment of funds;<br>– are freely available to absorb losses;<br>– do not impose any unavoidable servicing charge against earnings; and<br>– rank behind the claims of depositors and other creditors in the event of winding up.<br>– Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves. |
| **Common Equity Tier 1 Capital Ratio** | Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA. |
| **Common Equity Tier 1 deductions** | An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital. |
| **Compensation ratio** | The ratio of Compensation Expense to Net Operating Income. |
| **Consolidated Entity** | Macquarie Bank Limited and its subsidiaries. |
| **Directors' Profit Share (DPS)** | The 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 due directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset. |
| **Earnings on capital and certain corporate income items** | Net operating income includes the income generated by Macquarie Bank's Operating Groups, income from the investment of Macquarie Bank's capital, and certain items of operating income not attributed to Macquarie Bank's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie Bank's Operating Groups. |
| **Earnings per share** | A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 'Earnings Per Share'. |
| **ECAM** | Economic Capital Adequacy Model. |
| **ECS** | On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of Exchangeable Capital Securities (ECS). ECS are subordinated, unsecured notes that pay discretionary, non–cumulative, semi–annual floating rate cash distributions. Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non–viable without an exchange or a public sector injection of capital (or equivalent support). |
| **Effective tax rate** | The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non–controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore. |
| **Expense/Income ratio** | Total operating expenses expressed as a percentage of net operating income. |
| **Financial Report** | The Financial Report within the Macquarie Bank Annual Report. |
| **FIRB** | Foundation Internal Ratings Based Approach (for determining credit risk). |
| **FY2016** | The year ended 31 March 2016. |

## 7.0 GLOSSARY CONTINUED

| | |
|---|---|
| **FY2017** | The year ended 31 March 2017. |
| **Headcount** | Headcount represents Macquarie Bank's active permanent and variable workforce, and includes Macquarie Bank employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie Bank's non–executive directors are not included. |
| **HQLA** | High–quality liquid assets. |
| **International income** | Operating income is classified as 'international' with reference to the geographic location from which the operating income is reported from a Management perspective. This may not be the same geographic location where the operating income is recognised for reporting purposes. For example, operating income generated by work performed for clients based overseas but recognised in Australia for reporting purposes could be classified as 'international' income. Income earned in the Corporate segment is excluded from the analysis of international income. |
| **LGD** | Loss given default is defined as the economic loss which arises upon default of the obligor. |
| **Macquarie Bank, the Consolidated Entity** | Macquarie Bank Limited and its subsidiaries. |
| **Macquarie Group** | MGL and its subsidiaries. |
| **Macquarie Income Securities (MIS)** | Macquarie Income Securities (MIS) are perpetual, subordinated instruments that have no conversion rights to ordinary shares. Discretionary distributions are paid quarterly. They are treated as equity in the statement of financial position. There are four million $A100 face value MIS on issue. |
| **MACS** | On 8 March 2017, MBL, acting through its London Branch, issued $US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non–cumulative, semi–annual fixed rate cash distributions.<br>Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5 anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non–viable without an exchange or a public sector injection of capital (or equivalent support). |
| **MAM** | Macquarie Asset Management. |
| **MBL, the Company** | Macquarie Bank Limited ABN 46 008 583 542. |
| **MCN** | On 7 June 2013, MGL issued six million Macquarie Group Capital Notes (MCN) at a face value of $A100 each. MCN are subordinated, non–cumulative, unsecured notes that that pay discretionary, non–cumulative, semi–annual floating rate cash distributions and may be redeemed at face value on 7 June 2018, 7 December 2018 or 7 June 2019 (subject to certain conditions being satisfied) or earlier in specified circumstances.<br>MCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 7 June 2021; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non–viable without an exchange or a public sector injection of capital (or equivalent support). |
| **MCN2** | On 18 December 2015, MGL issued 5.3 million Macquarie Group Capital Notes 2 (MCN2) at a face value of $A100 each. MCN2 are subordinated, non–cumulative, unsecured notes that that pay discretionary, non–cumulative, semi–annual floating rate cash distributions and may be redeemed at face value on 17 March 2021, 17 September 2021 or 17 March 2022 (subject to certain conditions being satisfied) or earlier in specified circumstances.<br>MCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 March 2024; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non–viable without an exchange or a public sector injection of capital (or equivalent support). |
| **MEREP** | Macquarie Group Employee Retained Equity Plan. |
| **MFHPL** | Macquarie Financial Holdings Pty Limited. |
| **MGL** | Macquarie Group Limited ABN 94 122 169 279. |
| **MIM** | Macquarie Investment Management. |
| **MSIS** | Macquarie Specialised Investment Solutions. |

## 7.0 GLOSSARY CONTINUED

| | |
|---|---|
| **Net loan losses** | The impact on the income statement of loan amounts provided for or written off during the period, net of the recovery of any such amounts which were previously written–off or provided for in the income statement. |
| **Net tangible assets per ordinary share** | (Total equity less Macquarie Income Securities less non–controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period. |
| **Net Trading Income** | Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences. |
| **Non–Bank Group** | MGL, MFHPL and its subsidiaries. |
| **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. |
| **Non–GAAP metrics** | Non–GAAP metrics include financial measures, ratios and other information that are either not required or defined under Australian Accounting Standards. |
| **Operating Groups** | The Operating Groups consist of MAM, CAF, BFS and CGM. |
| **RBA** | Reserve Bank of Australia. |
| **Risk–weighted assets (RWA)** | A risk–based measure of an entity's exposures, which is used in assessing its overall capital adequacy. |
| **RMBS** | Residential Mortgage–Backed Securities. |
| **SPEs** | Special purpose entities. |
| **Subordinated debt** | Debt issued by Macquarie Bank for which agreements between Macquarie Bank and the lenders provide, in the event of liquidation, that the 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 Macquarie Bank. Subordinated debt is classified as liabilities in the Macquarie Bank financial statements and may be included in Tier 2 Capital. |
| **Tier 1 Capital** | Tier 1 capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital. |
| **Tier 1 Capital Deductions** | Tier 1 capital deductions comprises of (i) Common Equity Tier 1 Capital deductions; and (ii) Additional Tier 1 Capital deductions. |
| **Tier 1 Capital Ratio** | Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA. |
| **UK** | The United Kingdom. |
| **US** | The United States of America. |

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