



MACQUARIE  
BANK

# **Macquarie Bank Limited**

(ABN 46 008 583 542)

Disclosure Report (U.S. Version)  
for the fiscal year ended March 31, 2016

Dated: May 20, 2016

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## CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2016 (this “*Report*”), unless otherwise specified or the context otherwise requires:

- “*AASB*” means the Australian Accounting Standards Board;
- “*ABN*” means Australian Business Number;
- “*ACCC*” means the Australian Competition and Consumer Commission and its successors;
- “*ADI*” means an institution that is an authorized deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- “*AML-CTF Act*” means the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 of Australia;
- “*APRA*” means the Australian Prudential Regulation Authority and its successors;
- “*ASIC*” means the Australian Securities and Investments Commission and its successors;
- “*Asset and Liability Committee*” means the committee established by the Executive Committee with responsibility for oversight of asset and liability management, liquidity policy compliance, liquidity scenario analysis and contingency planning;
- “*Assets under Management*” is a non-GAAP financial measure we use that calculates the value of the proportional ownership interest in assets of funds managed by entities in MBL Group or the Non-Banking Group, as applicable, plus other assets managed on behalf of third parties, see “Financial information presentation — Non-GAAP financial measures”;
- “*ASX*” means the Australian Securities Exchange operated by ASX Limited and its successors;
- “*Australian Accounting Standards*” means Australian Accounting Standards that also ensures compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- “*Australian Banking Act*” means the Banking Act 1959 of Australia;
- “*Australian Corporations Act*” means the Corporations Act 2001 of Australia;
- “*A\$*” or “*\$*” means the Australian dollar and “*US\$*” means the U.S. dollar;
- “*Bank*” and “*MBL*” each means Macquarie Bank Limited (ABN 46 008 583 542) (an ADI) and includes its predecessors and successors, and “*we*”, “*our*”, “*us*” and “*MBL Group*” each means MBL and its controlled entities;
- “*Banking Group*” means Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary, including the Bank, that constitutes the Banking Group as described herein;
- “*Banking Holdco*” means Macquarie B.H. Pty Ltd (ABN 86 124 071 432), the intermediate holding company established as a subsidiary of MGL and as the immediate parent of MBL as part of the Restructure;
- “*BCN*” means Macquarie Bank Capital Notes;

- “CMA” means Cash Management Accounts;
- “CMT” means the Macquarie Cash Management Trust;
- “Commonwealth” and “Australia” each means the Commonwealth of Australia;
- “controlled entities” means those entities (including special purpose entities) over which another party has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party’s objectives;
- “ECS” means Exchangeable Capital Securities;
- “Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended;
- “Executive Committee” means the committee established and chaired by the managing director of MGL focusing on a variety of business issues, including key risks faced across the organization;
- “FCA” means the United Kingdom Financial Conduct Authority;
- “financial statements” means our historical financial statements;
- “FIRB” means the foundation internal ratings-based approach under Basel III;
- “GAAP” means generally accepted accounting principles;
- “historical financial statements” means our 2016 annual financial statements, our 2015 annual financial statements and our 2014 annual financial statements;
- “IASB” means the International Accounting Standards Board;
- “IFRS” means International Financial Reporting Standards;
- “MBIL” means Macquarie Bank International Limited;
- “MBL LB” means the London branch of MBL;
- “MBL’s U.S. Investors’ Website” means MBL’s U.S. investors’ website at <http://www.macquarie.com/mgl/com/us/usinvestors/mbl>;
- “MCN” means Macquarie Group Capital Notes;
- “MGL” means Macquarie Group Limited (ABN 94 122 169 279), the authorized NOHC for the Banking Group and the Non-Banking Group, and includes its predecessors and its successors, as more fully described herein;
- “MGL Group” means MGL and its controlled entities, including MBL Group;
- “MIS” means Macquarie Income Securities;
- “Net Profit Interests” means a share of production or proceeds from production derived from rights to various commodity assets (without the obligation to pay any of the costs of explorations and development).

- “*net operating income*”, an Australian Accounting Standards financial measure, includes net interest income (interest income less interest expense), trading income, fee and commission income, share of net profits of associates and joint ventures, net gains and losses from the sale of investments or the deconsolidation of controlled entities, dividends and distributions received/receivable, and other sundry income items, and is net of impairment charges and is reported in the income statement in our financial statements;
- “*NOHC*” means an authorized non-operating holding company of an ADI;
- “*NOHC Authority*” means the authority to be a non-operating holding company of an ADI granted to MGL by APRA on September 5, 2007 (as amended);
- “*Non-Banking Group*” means Non-Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary that constitute the Non-Banking Group as described herein;
- “*Non-Banking Holdco*” means Macquarie Financial Holdings Limited (ABN 63 124 071 398), the intermediate holding company established as a subsidiary of MGL and the parent of the Non-Banking Group as part of the Restructure;
- “*OFAC*” means the United States Office of Foreign Assets Control;
- “*operating expenses*”, an Australian Accounting Standards financial measure, include employment expenses (including staff profit sharing expense), brokerage and commission expense, occupancy expenses (including premises rental expense), non-salary technology expenses, professional fees, travel and communication expense, and other sundry expenses and are reported in the income statement in our financial statements;
- “*PRA*” means the United Kingdom Prudential Regulation Authority;
- “*RBA*” means the Reserve Bank of Australia;
- “*Restructure*” means the reorganization of MBL Group that was completed on November 19, 2007 that resulted in the establishment of MGL as the ultimate holding company of MBL and the transfer by MBL Group of certain businesses, subsidiaries and assets, primarily the Macquarie Capital operating group, to the Non-Banking Group;
- “*Services Agreements*” means the Outsourcing Master Services Agreements between MBL and MGL dated November 15, 2007, and between the Non-Banking Holdco and MGL dated December 10, 2007, and any supplements or amendments thereto;
- “*shared services*” means the services to be performed by MGL or its subsidiaries for the Banking and Non-Banking Groups pursuant to the Services Agreements described under “Macquarie Bank Limited — Organizational structure”;
- “*2014 annual financial statements*” means our audited consolidated financial statements contained in our 2014 Annual Report;
- “*2014 Annual Report*” means our 2014 annual report, extracts of which are incorporated by reference and which have been posted on MBL’s U.S. Investors’ Website;
- “*2015 annual financial statements*” means our audited consolidated financial statements contained in our 2015 Annual Report;

- “*2015 Annual Report*” means our 2015 annual report, extracts of which are incorporated by reference and which have been posted on MBL’s U.S. Investors’ Website;
- “*2016 annual financial statements*” means our audited consolidated financial statements contained in our 2016 Annual Report;
- “*2016 Annual Report*” means our 2016 annual report, extracts of which are incorporated by reference and which have been posted on MBL’s U.S. Investors’ Website; and
- “*2016 Fiscal Year*” means the fiscal year ended March 31, 2016.

Our fiscal year ends on March 31, so references to years such as “*2016*” or “*fiscal year*” and like references in the discussion of our financial statements, results of operation and financial condition are to the 12 months ending on March 31 of the applicable year.

In this Report, prior financial period amounts that have been reported in financial statements for or contained in the discussion of a subsequent financial period may differ from the amounts reported in the financial statements for or contained in the discussion of the financial statements for that prior financial period as the prior financial period amounts may have been adjusted to conform with changes in presentation in the subsequent financial period.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute “*forward-looking statements*” within the meaning of Section 21E of the Exchange Act. Examples of these forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as “*may*”, “*will*”, “*expect*”, “*intend*”, “*plan*”, “*estimate*”, “*anticipate*”, “*believe*”, “*continue*”, “*probability*”, “*risk*”, and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- macroeconomic conditions in the global debt and equity markets;
- changes in market liquidity, volatility and investor confidence;
- inflation, and interest rate, exchange rate and other market fluctuations;
- our ability to deal effectively with an economic slowdown or other economic or market difficulties or disruptions;
- our ability to effectively manage our capital and liquidity and to adequately fund the operations of MBL;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, or government policy, including as a result of regulatory proposals for reform of the banking, life insurance and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our reputation;
- the performance and financial condition of MGL, our indirect parent company;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- our ability to maintain or to increase market share and control expenses;
- the ability of MBL to attract and retain employees;
- changes in the credit quality of MBL’s clients and counterparties;
- changes to the credit ratings assigned to each of MGL and MBL;
- the effectiveness of our risk management processes and strategies;

- the performance of funds and other assets we manage;
- the impact of asset sales on our long-term business prospects;
- the impact of catastrophic events on MBL and its operations;
- changes in political, social and economic conditions, including changes in consumer spending and saving and borrowing habits, in any of the major markets in which we conduct our operations or which we may enter in the future; and
- various other factors beyond our control.

The foregoing list of important factors is not exhaustive. Statements that include forward-looking statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, believed, estimated, expected or intended.

When relying on forward-looking statements to make decisions with respect to MBL Group, investors and others should carefully consider the foregoing factors and other uncertainties and events and are cautioned not to place undue reliance on forward-looking statements.

We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Report.

Significant risk factors applicable to MBL Group are described under “Risk Factors” and elsewhere in this Report.



## EXCHANGE RATES

MBL Group publishes its consolidated financial statements in Australian dollars and its fiscal year ends on March 31 of each year. For your convenience, the following table sets forth, for MBL Group's fiscal years and months indicated, the period-end, average (fiscal year only), high and low noon buying rates in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York, expressed in U.S. dollars per A\$1.00.

In providing these translations, we are not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that we could have converted those Australian dollars into U.S. dollars. Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the noon buying rate on March 31, 2016, which was US\$0.7677 per A\$1.00. The noon buying rate on May 13, 2016 was US\$0.7273 per A\$1.00.

| <u>Fiscal year</u>                  | <u>Period End</u> | <u>Average Rate<sup>1</sup></u> | <u>High</u> | <u>Low</u> |
|-------------------------------------|-------------------|---------------------------------|-------------|------------|
| 2012 .....                          | 1.0367            | 1.0456                          | 1.1026      | 0.9453     |
| 2013 .....                          | 1.0409            | 1.0317                          | 1.0591      | 0.9688     |
| 2014 .....                          | 0.9275            | 0.9339                          | 1.0564      | 0.8715     |
| 2015 .....                          | 0.7625            | 0.8673                          | 0.9488      | 0.7582     |
| 2016 .....                          | 0.7677            | 0.7353                          | 0.8118      | 0.6855     |
| <u>Month</u>                        | <u>Period End</u> |                                 | <u>High</u> | <u>Low</u> |
| November 2015 .....                 | 0.7235            |                                 | 0.7246      | 0.7030     |
| December 2015 .....                 | 0.7286            |                                 | 0.7346      | 0.7100     |
| January 2016 .....                  | 0.7071            |                                 | 0.7166      | 0.6855     |
| February 2016 .....                 | 0.7152            |                                 | 0.7216      | 0.7058     |
| March 2016 .....                    | 0.7677            |                                 | 0.7677      | 0.7172     |
| April 2016 .....                    | 0.7612            |                                 | 0.7817      | 0.7504     |
| May 2016 (through May 13, 2016).... | 0.7273            |                                 | 0.7641      | 0.7273     |

<sup>1</sup> The average of the noon buying rates on the last day of each month during the period.

## **AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS**

The Australian dollar is convertible into U.S. dollars at freely floating rates, subject to the sanctions described below. The Autonomous Sanctions Regulations 2011 promulgated under the Autonomous Sanctions Act 2011 of Australia, the Charter of the United Nations Act 1945 of Australia, and other laws and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The Australian Department of Foreign Affairs and Trade maintains a list of all persons and entities having a prescribed connection with terrorism and a list of all persons and entities that are subject to autonomous sanctions (which include economic sanctions) which are available to the public at the department's website at <http://www.dfat.gov.au>.

## FINANCIAL INFORMATION PRESENTATION

### Application of new accounting standards

Please refer to Note 1 of the 2016 annual financial statements for a description of new Australian accounting standards and amendments to accounting standards that are effective in the 2016 fiscal year.

### Our historical financial statements

Our 2016 annual financial statements include our audited financial statements as at, and for the years ended, March 31, 2016 and 2015. Our operating segments, as reported in accordance with Australian Accounting Standards, reflect our current operating groups and divisions. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015” for further information.

MBL Group is divided into the following operating groups for internal reporting and risk management purposes: Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions); Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities); Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); Banking & Financial Services; and Corporate & Asset Finance. Transfers between segments, and to and from segments in the Non-Banking Group, are determined on an arm’s-length basis and are eliminated on consolidation. Investors should note that on April 15, 2015, MBL transferred the Macquarie Investment Management division of Macquarie Asset Management to the Non-Banking Group. After April 15, 2015, results from the Macquarie Investment Management division have formed part of the Non-Banking Group’s results. Accordingly, the Macquarie Investment Management business has been classified as discontinued operations in our 2015 audited financial statements and 2016 audited financial statements, including the restated figures contained therein. Note that all figures in this Report exclude numbers attributable to Macquarie Investment Management, unless otherwise indicated. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition—Presentation” for further details and “Macquarie Bank Limited—Overview—Recent developments” for a more detailed discussion of the underlying transaction.

We report certain items in the Corporate segment, which is not considered an operating group. This 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 earnings from the net impact of managing liquidity for MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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. The items reported in the Corporate segment do not form part of the total profit contribution provided by our operating groups. The total contribution to profit by operating groups plus the contribution to profit included in the Corporate segment equate to our total profit attributable to ordinary equity holders.

### Impact of acquisitions and disposals on the 2016, 2015 and 2014 fiscal years

During the 2016 fiscal year, the Macquarie Investment Management division was transferred from the Banking Group to the Non-Banking Group. In the Banking Group, Macquarie Asset Management, through Macquarie Specialised Investment Solutions, continues to manufacture and distribute a range of tailored investment solutions over funds and listed equities, including fund-linked products, capital protected investments, a hedge fund incubation platform, infrastructure debt funds management, restructuring solutions and agricultural investment solutions. This reorganization aligned the ownership of Macquarie Asset Management fund management activities under the Non-Banking Group. In addition, MGL announced that it had entered into an agreement to acquire the

Esanda dealer finance portfolio (“*Esanda Portfolio*”) from Australia and New Zealand Banking Group Limited (“ANZ”) for A\$8.2 billion. The Esanda Portfolio became part of Macquarie Leasing, the automotive and equipment finance division of the Corporate & Asset Finance Group, which is part of the Banking Group.

During the 2015 fiscal year, a subsidiary of MBL entered into an agreement to acquire an aircraft operating lease portfolio from AWAS Aviation Capital Limited for US\$4 billion (subject to adjustments). The portfolio comprises 83 modern, current-generation commercial passenger aircraft leased to 40 airlines. The portfolio will be part of Macquarie AirFinance, the aircraft operating lease division of Corporate & Asset Finance. In addition, Corporate & Asset Finance sold its U.S.-based information technology equipment leasing business, consisting of US\$0.9 billion in assets, to Huntington National Bank. Corporate & Asset Finance also sold its North American railcar operating lease portfolio, comprising of approximately US\$0.4 billion in assets.

During the 2014 fiscal year, Banking & Financial Services acquired a 25% stake in Connective Broker Services Pty Ltd, an Australian mortgage aggregator. In addition, Banking & Financial Services sold Macquarie Private Wealth Canada, its 50% interest in the Religare-Macquarie Private Wealth joint venture in India and its 19.9% stake in OzForex. During the 2014 fiscal year, Macquarie Asset Management acquired ING Investment Management Korea and sold the Macquarie Investment Management Private Markets business.

- In accordance with AASB 3 “*Business Combinations*”, provisional amounts for the initial accounting of acquisitions made during each fiscal year were reported in MBL Group’s 2016, 2015 and 2014 annual financial statements, respectively.

For further information on how these businesses have been integrated into MBL Group, see “Macquarie Bank Limited — Operating groups” below, and for information on their impact on our results of operation and financial condition for the 2016 and 2015 fiscal years, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment analysis” and “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2015 compared to year ended March 31, 2014 — Segment analysis”, respectively.

For further information on acquisitions and disposals of subsidiaries and businesses during the 2016, 2015 and 2014 fiscal years, see Note 42 “Acquisitions and disposals of subsidiaries and businesses” to MBL Group’s 2016 annual financial statements and Note 43 “Acquisitions and disposals of subsidiaries and businesses” to MBL Group’s 2015 annual financial statements, respectively.

### **Certain differences between Australian Accounting Standards and U.S. GAAP**

Investors should be aware that the financial information contained or incorporated by reference in this Report and in the additional information posted on MBL’s U.S. Investors’ Website have been prepared and presented in accordance with Australian Accounting Standards and the recognition and measurement principles prescribed in the current interpretations of the International Financial Reporting Standards, or Australian Accounting Standards. There are differences between Australian Accounting Standards and U.S. GAAP that may be material to the financial information contained or incorporated by reference in this Report and in the additional information posted on MBL’s U.S. Investors’ Website. MBL Group has not provided a quantitative reconciliation or narrative discussion of these differences in this Report. Investors should therefore consult their own professional advisors for an understanding of the differences between Australian Accounting Standards and U.S. GAAP and how those differences might affect the financial information included in this Report and, more generally, the financial results of MBL Group going forward.

The accounting policies adopted by entities within MBL Group are as reported in Note 1 to our 2016 annual financial statements.

### **Non-GAAP financial measures**

We report our financial results in accordance with Australian Accounting Standards. However, we include certain financial measures and ratios that are not prepared in accordance with Australian Accounting Standards that

we believe provide useful information to investors in measuring the financial performance and condition of our business for the reasons set out below. In addition, some of these non-GAAP financial measures are used by MBL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report and in the additional information posted on MBL's U.S. Investors' Website. These measures include:

### ***Assets under Management***

Assets under Management provides a consistent basis for measuring the scale of the funds management activities across our operating groups. Assets under Management is calculated as the proportional ownership interest in the underlying assets of funds and other assets managed by entities in MBL Group, as applicable, on behalf of third parties that are not funds managed by any MBL Group entity. This calculation is adjusted to exclude cross-holdings between funds managed by entities in MBL Group, as applicable, and is further adjusted to reflect the proportional ownership interest in the relevant fund manager.

Historically, substantially all of MBL's Assets under Management were reported by the Macquarie Investment Management division of the Macquarie Asset Management operating segment. On April 15, 2015, the division was transferred from the Banking Group to the Non-Banking Group. See "Macquarie Bank Limited—Overview—Recent developments."

### ***Funded loan assets and funded statutory statement of financial position***

Funded loan assets is a non-GAAP financial measure. Funded loan assets is determined based on the funded statements of financial position of MBL Group and not the statutory statement of financial position classification. MBL Group's statutory 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 MBL Group. A reconciliation between the reported loan assets and the net funded loan assets at March 31, 2016 is presented below in "Management's Discussion and Analysis of Results of Operation and Financial Condition — Capital analysis — Statutory consolidated statement of financial position".

## RISK FACTORS

*We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 37 to our 2016 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, results of operation or financial condition.*

***Our business and financial condition has been and may be negatively impacted by adverse global credit and other market conditions. Economic conditions, particularly in the United States, Australia, Europe and Asia, may have a negative impact on MBL's financial condition and liquidity.***

In recent years, global credit and equity markets have been characterized by uncertainty and volatility, with such markets continuing to demonstrate reduced liquidity, widened credit spreads and decreased price transparency. More recently, these challenging market conditions have resulted primarily from the ongoing sovereign debt concerns in Europe and concerns about Chinese and global economic growth, along with systemic reviews of the banking sector by rating agencies and regulators, imposing additional capital and other regulatory requirements. Our businesses operate in or depend on the operation of global markets, either directly or indirectly, including through exposures in securities, loans, derivatives and other activities. In particular, uncertainty in global credit markets, increased funding costs, constrained access to funding, and the decline in equity and capital market activity have impacted transaction flow in a range of industry sectors, all of which have adversely impacted our financial performance.

MBL may continue to endure similar or heightened adverse impacts from such conditions in the future. MBL may also face new costs and challenges as a result of general economic and geopolitical events and conditions. For instance, a European sovereign default, slowdown in the U.S. or Chinese economies, slowing growth in emerging economies or departure of a member country from the Euro zone or the market perception of such events could disrupt global funding markets and the global financial system more generally. MBL may also be impacted indirectly through its counterparties that may have direct exposure to European sovereigns and financial institutions. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Capital analysis — Euro-zone exposures” for a description of MBL’s exposure in certain European countries as of March 31, 2016.

Since 2008, governments, regulators and central banks globally have taken numerous steps to increase liquidity and to restore investor and public confidence. There can be no assurance that the relief measures implemented by governments and central banks around the globe to restore confidence in financial systems and bolster economic growth will result in a sustained long-term stabilization of financial markets, or what impact the withdrawal of such relief measures or the consequential impacts of substantial fiscal stimulus on the budgets of sovereigns will have on global economic conditions or MBL’s financial condition or prospects.

***Our businesses, including transaction execution, funds management and lending businesses, have been and may be adversely affected by market uncertainty, volatility or lack of confidence due to general declines in economic activity and other unfavorable economic, geopolitical or market conditions or by the impact of changes in foreign exchange rates.***

Poor economic conditions and other adverse geopolitical conditions can adversely affect and have adversely affected investor and client confidence, resulting in significant industry-wide declines in the size and number of underwritings and of financial advisory transactions and increased market risk as a result of increased volatility, which could have and have had an adverse effect on our revenues and our profit margins. For example, our client facilitation fee income may be, and have been, impacted by transaction volumes. In addition, in certain circumstances, market uncertainty or general declines in market or economic activity may affect our client execution businesses by decreasing levels of overall activity or by decreasing volatility, but at other times market uncertainty and even declining economic activity may result in higher trading volumes or higher spreads or both. Our trading income may be adversely impacted during times of subdued market conditions and client activity and increased market risk can lead to trading losses or cause us to reduce the size of our trading businesses in order to limit our risk exposure. Market conditions, as well as declines in asset values, may cause our clients to transfer their assets out

of our funds or other products or their brokerage accounts and result in reduced net revenues, principally in our funds management business. Our funds management fee income, including base and performance fees, may be impacted by volatility in equity values and returns from our managed funds. Our loan portfolio may also be impacted by deteriorating economic conditions. We assess the credit quality of our loan portfolio and the value of our proprietary investments, including our investments in managed funds, for impairment at each reporting date. Our returns from asset sales are also subject to the current economic climate. In addition, if financial markets decline, revenues from our variable annuity products are likely to decrease. In addition, increases in volatility increase the level of our risk weighted assets and increase our capital requirements. Increased capital requirements may require us to raise additional capital at a time, and on terms, which may be less favorable than MBL would otherwise achieve during stable market conditions. If this occurs, then this may have an impact on MBL's financial performance.

***Our liquidity, profitability and businesses may be adversely affected by an inability to access international capital markets or by an increase in our cost of funding.***

Liquidity is essential to our business, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired by an inability to access secured or unsecured debt markets, an inability to sell assets or unforeseen outflows of cash or collateral. Our liquidity may also be impaired due to circumstances that we may be unable to control, such as general market disruptions, which may occur suddenly and dramatically, an operational problem that affects our trading clients or ourselves, or changes in our credit spreads, which are continuous, market-driven, and subject at times to unpredictable and highly volatile movements. For a more detailed description of liquidity risk, refer to the section "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity" herein.

General business and economic conditions are key considerations in determining our access to credit and equity capital markets, cost of funding and ability to meet our liquidity needs. The impact of these include, but are not limited to, changes in short-term and long-term interest rates, inflation, monetary supply, commodities volatility and results, fluctuations in both debt and equity capital markets, relative changes in foreign exchange rates, consumer confidence and changes in the strength of the economies in which we operate. Renewed turbulence or a worsening general economic climate could adversely impact any or all of these factors. Should conditions remain uncertain for a prolonged period, or deteriorate further, our funding costs may increase and may limit our ability to replace, in a timely manner, maturing liabilities, which could adversely affect our ability to fund and grow our business or otherwise have a material impact on us.

In the event that our current sources of funding prove to be insufficient, we may be forced to seek alternative financing, which could include selling liquid securities or other assets. The availability of alternative financing will depend on a variety of factors, including prevailing market conditions, the availability of credit, our credit ratings and credit capacity. The cost of these alternatives may be more expensive than our current sources of funding or include other unfavorable terms, or we may be unable to raise as much funding as we need to support our business activities. This could slow the growth rate of our businesses, cause us to reduce our term assets and increase our cost of funding, all of which could reduce our profitability. In the event that we are required to sell assets, there is no assurance that we will be able to obtain favorable prices on some or all of the assets we offer for sale or that we will be able to successfully complete asset sales at an acceptable price or in an acceptable timeframe. In addition, the sale of income earning assets may adversely impact our income in future periods.

***Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate.***

Many of our businesses are highly regulated in most jurisdictions in which we do business. We have businesses in multiple sectors, including as licensed brokers, investment advisers or other regulated financial services providers. We operate similar kinds of businesses across multiple jurisdictions, and some of our businesses operate across more than one jurisdiction or sector and are regulated by more than one regulator. Additionally, some members of MBL Group own or manage assets and businesses that are regulated. Our businesses include an ADI in Australia (regulated by APRA) and branches in the United Kingdom, the Dubai International Finance Centre, Singapore, Hong Kong and South Korea and representative offices in the United States, New Zealand and Switzerland. The

regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of MBL's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation in most jurisdictions in which we operate, including in the United States in respect of our broker-dealer, over-the-counter (OTC) derivatives and funds management businesses. Certain regulatory developments will significantly alter the regulatory framework and may adversely affect our competitive position and profitability. Some of the key regulators and regulatory frameworks applicable to our businesses are described below under "Regulation and Supervision".

Regulatory agencies and governments frequently review banking and financial services laws, regulations and policies, including fiscal policies, for possible changes. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences or impacts across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally and on financial transactions, limiting the types of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Future changes in laws, regulations or policies as described above can be unpredictable, and beyond our control and could adversely affect our business.

APRA may introduce new prudential regulations or modify existing regulations, including those that apply to MBL as an ADI. Any such event could result in changes to the organizational structure of MBL Group and adversely affect the business or financial performance of MBL Group.

Global economic conditions have led to increased supervision and regulation, as well as changes in regulation in markets in which we operate, particularly for financial institutions, and will lead to further significant changes of this kind. In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation. Furthermore, the nature and impact of future changes are not predictable and beyond our control and there is operational and compliance risk associated with the implementation of any new laws and regulations that apply to us as a financial institution. In particular, changes in applicable laws, regulations or other governmental policies could adversely affect one or more of our businesses and could require us to incur substantial costs.

We are responsible for ensuring that we comply with all applicable legal and regulatory requirements (including accounting standards, where applicable, as well as rules and regulations relating to corrupt and illegal payments and money laundering) and industry codes of practice, as well as meeting our ethical standards. The failure to comply with applicable regulations could result in suspensions, restrictions of operating licenses, fines and penalties or limitations on our ability to do business. They could also have adverse reputational consequences. These costs, expenses and limitations could have an adverse effect on our business, results of operations, financial performance or financial condition. The legal and regulatory requirements described above could also adversely affect the profitability and prospects of us or our businesses to the extent that they limit our operations and flexibility of our businesses. The nature and impact of future changes in such policies are not predictable and are beyond our control.

***We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.***

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to the financial services sector generally and MBL's business operations, capital, liquidity and risk management, compensation and other matters, has increased dramatically over the past several years. The financial crisis and the subsequent political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny, investigations and litigation. Responding to and addressing such matters, regardless of the ultimate outcome, is time-consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and regulators have become aggressive in commencing enforcement actions or with advancing or supporting legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our



reputation with clients and on the morale and performance of our employees, which could adversely affect our businesses and results of operations.

***Changes and increased volatility in currency exchange rates may adversely impact our financial results and our financial and regulatory capital positions.***

While our consolidated financial statements are presented in Australian dollars, a significant portion of our operating income is derived, and operating expenses are incurred, from our offshore business activities, which are conducted in a broad range of currencies and with counterparties around the world. Changes in the rate at which the Australian dollar is translated from other currencies can impact our financial statements and the economics of our business.

Although we seek to carefully manage our exposure to foreign currencies through matching of assets and liabilities in local currencies and through the use of foreign exchange forward contracts to hedge our exposure, we are still exposed to exchange risk. Insofar as we are unable to hedge or have not completely hedged our exposure to non-Australian currencies, our reported profit or foreign currency translation reserve would be affected.

Investors should be aware that exchange rate movements may adversely impact our future financial results. MBL Group's regulatory capital position may be adversely impacted by a depreciating Australian dollar, which increases the capital requirement for assets denominated in currencies other than Australian dollars.

***Our business may be adversely affected by our failure to adequately manage the risks associated with certain strategic opportunities and new businesses, including acquisitions, and the exiting or restructuring of existing businesses.***

From time to time we may evaluate strategic opportunities and undertake acquisitions of businesses, some of which may be material to our operations. Certain acquisition opportunities may arise, for example, as competitors choose to exit what they consider non-core activities. Our completed and prospective acquisitions and growth initiatives may cause us to become subject to unknown liabilities of the acquired or new business and additional or different regulations.

We may over value the acquisition, we may not achieve expected synergies from the acquisition, we may achieve lower than expected cost savings or otherwise incur losses, we may lose customers and market share, we may face disruptions to our operations resulting from integrating the systems, processes and personnel (including in respect of risk management) of the acquired business into MBL Group, our management's time may be diverted to facilitate the integration of the acquired business into MBL Group, or the acquisition may have negative impacts on our results, financial condition or operations. We may also underestimate the costs associated with outsourcing, exiting or restructuring existing businesses. If these risks eventuate they may have a negative impact on our results, financial condition and prospects. Where our acquisitions are in foreign jurisdictions, or are in emerging economies in particular, we may be exposed to heightened levels of regulatory scrutiny and political, social or economic disruption and sovereign risk in emerging and growth markets.

In addition, there are current and prospective strategic risks associated with timely business decisions, proper implementation of decisions or responsiveness to changes in our current operating environment. From time to time, we may evaluate other strategic opportunities, the outcome of which is dependent upon the quality of our strategic planning process, the implications of the strategy on risk appetite and our ability to evaluate and, if determined to be worthwhile, implement such strategic opportunities.

***Our business is substantially dependent on our brand and reputation.***

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in MGL Group and many of the funds managed by entities owned, in whole or in part, by MBL and MGL use the Macquarie name. We do not control those entities that are not in MBL Group, but their actions may reflect directly on our reputation. Our reputation and,

as a result, our business and business prospects could be adversely affected if any of the entities using the Macquarie name take actions, or are publically accused of such actions, that bring negative publicity on MBL Group.

The financial condition and results of operation of MBL Group may be indirectly adversely affected by the negative performance, or negative publicity in relation to, any Macquarie-managed fund or funds that Macquarie has promoted or is associated with, as investors and lenders may associate such funds with the name, brand and reputation of MBL Group and MGL Group and other Macquarie-managed funds. In addition, if funds that use the Macquarie name or are otherwise associated with Macquarie-managed infrastructure assets, such as roads, airports, utilities and water distribution facilities that people view as community assets, are perceived to be managed inappropriately, those managing entities could be subject to criticism and negative publicity, harming our reputation and the reputation of other entities that use the Macquarie name.

***Competitive pressure, both in the financial services industry, as well as in the other industries in which we operate, could adversely impact our business and results of operation.***

We face significant competition from local and international competitors, which compete vigorously for participation in the various markets and sectors across which we operate, including the financial services industry. We compete on the basis of a number of factors, including our products and services, depth of client relationships, innovation, reputation and price. We believe that we will continue to experience pricing pressures in the future as some of our competitors seek to obtain or increase market share. We compete, both in Australia and internationally, with asset managers, retail and commercial banks, private banking firms, investment banking firms, brokerage firms, internet based firms and other investment and service firms in connection with the various funds and assets we manage and services we provide. In addition, any trend toward consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. In recent years, competition in the financial services industry has also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. Many of our competitors are larger than we are and may have significantly greater financial resources than we do and/or may be able to offer a wider range of products which may enhance their competitive position. The effect of competitive market conditions, especially in our main markets, products and services, may lead to an erosion in our market share or margins and adversely impact our business and results of operation.

***Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance.***

Our employees are our most important resource, and our performance is largely dependent on the talents and efforts of highly skilled individuals. As such, our continued ability to compete effectively in our businesses and to expand into new business areas and geographic regions depends on our ability to retain and motivate our existing employees and attract new employees. Competition from within the financial services industry and from businesses outside the financial services industry, such as professional service firms, hedge funds, private equity funds and venture capital funds, for qualified employees has historically been intense and is expected to increase during periods of economic growth.

In order to attract and retain qualified employees, we must compensate such employees at or above market levels. Typically, those levels have caused employee remuneration to be our greatest expense as our performance-based remuneration has historically been cash based and highly variable. Recent market events have resulted in increased regulatory and public scrutiny of corporate remuneration policies and the establishment of criteria against which industry remuneration policies may be assessed. As an ADI regulated by APRA, we may be subject to limitations on remuneration practices (which may or may not affect our competitors). These limitations may require us to further alter our remuneration practices in ways that could adversely affect our ability to attract and retain qualified and talented employees. If we are unable to continue to attract and retain qualified employees, as a result of such changes or otherwise, or are required to pay higher remuneration in order to attract and retain qualified employees to maintain our competitive position, or if increased regulation requires us to further change our remuneration policies, our performance, including our competitive position, could be materially adversely affected.

In addition, current and future laws (including laws relating to immigration and outsourcing) may restrict our ability to move responsibilities or personnel from one jurisdiction to another. This may impact our ability to take advantage of business and growth opportunities or potential efficiencies, which could adversely affect our profitability.

***Our business is subject to the risk of loss associated with falling prices in the equity and other markets in which we operate.***

We are exposed to changes in the value of financial instruments and other financial assets that are carried at fair market value, as well as changes to the level of our advisory and other fees due to changes in interest rates, exchange rates, equity and commodity prices, credit spreads and other market risks. These changes may result from changes in economic conditions, monetary and fiscal policies, market liquidity, availability and cost of capital, international and regional political events, acts of war or terrorism, corporate, political or other scandals that reduce investor confidence in capital markets, natural disasters or pandemics or a combination of these or other factors. We trade in foreign exchange, interest rate, commodity, bullion, energy, securities and other markets and are an active price maker in the derivatives market. Certain financial instruments that we hold and contracts to which we are a party are increasingly complex, as we employ structured products to benefit our clients and ourselves, and these complex structured products often do not have readily available markets to access in times of liquidity stress. We may incur losses as a result of decreased market prices for products we trade, which decreases the valuation of our trading and investment positions, including our interest rate and credit products, currency, commodity and equity positions. In addition, reductions in the level of prices in the equity markets or increases in interest rates may reduce the value of our clients' portfolios, which in turn may reduce the fees we earn for managing assets in certain parts of our business. Increases in interest rates or attractive conditions in other investments could cause our clients to transfer their assets out of our funds or other products.

***Defaults by one or more other large financial institutions or counterparties could adversely affect financial markets generally.***

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among financial institutions. As a result of, and in light of, recent significant volatility in the financial sector and the capital markets, concerns about, or a default by, one or more institutions or by a sovereign could lead to market-wide liquidity problems, losses or defaults by other institutions globally that may further affect us. This is sometimes referred to as “*systemic risk*” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, hedge funds and exchanges that we interact with on a daily basis. These risks may impact the value of financial instruments and other financial assets that are carried at fair market value by MBL and MBL's ability to deal in those assets. If these risks eventuate, they may have an impact on our results, financial condition and prospects.

***An increase in the failure of third parties to honor their commitments in connection with our trading, lending and other activities, including funds that we manage, may adversely impact our business.***

We are exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of a third party to satisfy its financial obligations to us on a timely basis. The resulting credit exposure will depend on a number of factors, including declines in the financial condition of the counterparty, the value of property we hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 37.1 to our 2016 annual financial statements for a description of the most significant regional, business segment and individual credit exposures where we believe there is a significant risk of loss. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances, which may also adversely impact our business and profitability.

***Credit constraints of purchasers of our investment assets or on our clients may impact our income.***

Historically, a portion of our income has been generated from the sale of assets to third parties, including our funds. If buyers are unable to obtain financing to purchase assets that we currently hold or purchase with the intention to sell in the future, we may be required to hold investment assets for a longer period of time than we historically have or may sell these assets at lower prices than we historically would have expected to achieve, which may lower our rate of return on these investments and require funding for periods longer than we have anticipated.

***Failure to maintain our credit ratings could adversely affect our cost of funds, liquidity, competitive position and access to capital markets.***

The credit ratings assigned to us and certain of our subsidiaries by rating agencies are based on an evaluation of a number of factors, including our ability to maintain a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, funding stability and security, disciplined liquidity management and our key operating environments, including the availability of systemic support in Australia. In addition, a credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events that are not related to the MBL Group.

If we fail to maintain our current credit ratings, this could (i) adversely affect our cost of funds and related margins, liquidity, competitive position, the willingness of counterparties to transact with us and our ability to access capital markets or (ii) trigger our obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with us or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

***We may incur losses as a result of ineffective risk management processes and strategies.***

While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances.

For a further discussion of our risk management policies and procedures, see our “Risk Management Report” in the extracts from the 2016 Annual Report of MGL and Note 37 to our 2016 annual financial statements.

***Future growth, including through acquisitions, mergers and other corporate transactions, may place significant demands on our managerial, legal, accounting, IT, risk management, operational and financial resources and may expose us to additional risks.***

Future growth, including through acquisitions, mergers and other corporate transactions, may place significant demands on our legal, accounting, IT, risk management and operational infrastructure and result in increased expenses. Our future growth will depend, among other things, on our ability to integrate new businesses, maintain an operating platform and management system sufficient to address our growth, attract employees and other factors described herein. If we do not manage our expanding operations effectively, our ability to generate revenue and control our expenses could be adversely affected.

A number of our recent and planned business initiatives and further expansions of existing businesses are likely to bring us into contact, directly or indirectly, with individuals and entities that are new clients, with new asset classes and other new products or new markets. These business activities expose us to new and enhanced risks, including reputational concerns arising from dealing with a range of new counterparties and investors, actual or perceived conflicts of interest, regulatory scrutiny of these activities, potential political pressure, increased credit-related and operational risks, including risks arising from accidents or acts of terrorism, and reputational

concerns with the manner in which these businesses are being operated or conducted. If these risks eventuate, they may have a negative impact on our results, financial condition or operations.

***We may experience writedowns of our investments, loans and other assets related to volatile market conditions.***

MBL Group recorded A\$588 million of impairment charges for the year ended March 31, 2016, including A\$97 million of impairment charges on investment securities available-for-sale, investments in associates and joint ventures, and other non-financial assets, and A\$491 million of loan impairment provisions. Further impairments and provisions may be required in future periods if the market value of assets similar to those held were to decline.

Sudden declines and significant volatility in the prices of assets may substantially curtail or eliminate the trading markets for certain assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions and the difficulty in valuing assets may negatively affect our capital, liquidity or leverage ratios, increase our funding costs and generally require us to maintain additional capital.

***MBL Group relies on services provided by MGL.***

Under the Services Agreements, MGL provides shared services to MBL Group. These shared services include risk management, financial operations and economic research services, information technology, treasury, settlement services, equity markets operation services, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, business improvement and strategy, central executive services, accommodation and related services, other group-wide services and business shared services. Other than exercising its rights under the Services Agreements, MBL Group has no direct control over the provision of those services, MGL's continued provision of those services or the cost at which such services are provided. Any failure by MGL to continue to provide those services or an increase in the cost of those services will have an adverse impact on our results or operations.

***Apart from its rights under the Services Agreements, MBL has no control over the management, operations or business of entities in MGL Group that are not part of MBL Group.***

Entities in MGL Group that are not part of MBL Group may compete and establish businesses that compete with the businesses of MBL Group and those other entities are not obligated to support the businesses of MBL Group. Other than APRA prudential standards and capital adequacy requirements described in "Regulation and Supervision", there are no regulations or agreements governing the allocation of future business between the Banking Group and the Non-Banking Group, including MBL Group.

***Our business operations expose us to potential tax liabilities that could have an adverse impact on our results of operation and our reputation.***

We are exposed to risks arising from the manner in which the Australian and international tax regimes may be applied and enforced, both in terms of our own tax compliance and the tax aspects of transactions on which we work with clients and other third parties. Our international, multi-jurisdictional platform increases our tax risks. In addition, as a result of increased funding needs by governments employing fiscal stimulus measures, revenue authorities in many of the jurisdictions in which we operate are known to have become more active in their tax collection activities. While we believe that we have in place controls and procedures that are designed to ensure that transactions involving third parties comply with applicable tax laws and regulations, any actual or alleged failure to comply with or any change in the interpretation, application or enforcement of applicable tax laws and regulations could adversely affect our reputation and affected business areas, significantly increase our own tax liability and expose us to legal, regulatory and other actions.

***We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events.***

Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. As our client base, business activities and geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. We must continuously update these systems to support our operations and growth, which may entail significant costs and risks of successful integration. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume or disruption in internet services provided by third parties, adversely affecting our ability to process these transactions or provide these services.

We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the failure of our IT systems, or from external events. Such operational risks may include theft and fraud, improper business practices, mishandling of client monies or assets, client suitability and servicing risks, product complexity and pricing, and valuation risk or improper recording, evaluating or accounting for transactions or breaches of our internal policies and regulations. There is increasing regulatory and public scrutiny concerning outsourced and off-shore activities and their associated risks, including, for example, the appropriate management and control of confidential data. The failure to appropriately manage this risk, including where external service providers are used, may adversely impact our reputation, financial performance and position.

In addition, there have been a number of highly publicized cases around the world involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the counterparties, clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities or derivatives transactions, and as our interconnectivity with our clients and counterparties grows, we increasingly face the risk of operational failure with respect to our clients' and counterparties' systems. Any such failure, termination or constraint could adversely affect our ability to effect or settle transactions, service our clients, manage our exposure to risk, meet our obligations to counterparties or expand our businesses or result in financial loss or liability to our clients and counterparties, impairment of our liquidity, disruption of our businesses, regulatory intervention or reputational damage.

***We may face information security risks.***

Our businesses are highly dependent on our information technology systems. We devote significant effort to protecting the confidentiality, integrity and availability of our computer systems, software and networks, including maintaining the confidentiality of information that may reside on those systems. However, there can be no assurances that our security measures will provide absolute security. Information security risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of organized criminals and hackers. Our computer systems, software and networks may be vulnerable to unauthorized access, misuse, denial-of-service attacks, phishing attacks, computer viruses or other malicious code and other events that could have a security impact. Information security threats may also occur as a result of our plans to continue to implement internet banking and mobile banking channel strategies and develop additional remote connectivity solutions, the outsourcing of some of our business operations and the threat of cyber terrorism. Third parties with whom we do business, as well as other third parties with whom our clients do business, can also be sources of operational risk to us, including with respect to security breaches affecting such parties, breakdowns or failures of the systems or misconduct by the employees of such parties and cyber-attacks. Such incidents may require us to take steps to protect the integrity of our own operational systems or to safeguard our confidential information and that of our clients, thereby increasing our operational costs and potentially diminishing customer satisfaction. It is possible that we may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats, because the techniques used can be highly sophisticated and can evolve rapidly, and those that would perpetrate attacks can be well resourced. An information security failure could have

serious consequences for MBL Group including operational disruption, financial losses, reputational damage, theft of intellectual property and customer data, and could result in violations of applicable privacy laws, all of which could have a material impact on MBL Group.

***Our businesses, including our commodities activities and particularly our physical commodities trading businesses, are subject to the risk of unforeseen, hostile or potential catastrophic events, and environmental, reputational and other risks that may expose us to significant liabilities and costs.***

Our businesses are subject to the risk of unforeseen, hostile or catastrophic events, many of which are outside of our control, including natural disasters, extreme weather events (such as persistent winter storms or protracted droughts) leaks, spills, explosions, release of toxic substances, fires, accidents on land or at sea, terrorist attacks or other hostile or catastrophic events. Additionally, rising climate change concerns may lead to additional regulation that could increase the operating costs and/or reduce the profitability of our investments. In addition, we rely on third party suppliers or service providers to perform their contractual obligations, and any failure on their part could adversely affect our business. We may also not be able to obtain insurance to cover some of these risks and the insurance that we have may be inadequate to cover our losses.

The occurrence of any such events may prevent us from performing under our agreements with clients, may impair our operations or financial results, and may result in litigation, regulatory action, negative publicity or other reputational harm.

***Conflicts of interest could limit our current and future business opportunities.***

As we expand our businesses and our client base, we increasingly have to address potential or perceived conflicts of interest, including situations where our services to a particular client conflict with, or are perceived to conflict with, our own proprietary investments or other interests or with the interests of another client, as well as situations where one or more of our businesses have access to material non-public information that may not be shared with other businesses within MGL Group. While we believe we have adequate procedures and controls in place to address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses, appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged and the willingness of clients to enter into transactions may be adversely affected if we fail, or appear to fail, to deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could materially adversely affect our reputation or business, including give rise to claims by and liabilities to clients, litigation or enforcement actions or discourage clients or counterparties to do business with us.

***Litigation, regulatory actions and contingent liabilities may adversely impact our results of operations.***

We may, from time to time, be subject to material litigation, regulatory actions and contingent liabilities, for example, as a result of inappropriate documentation of contractual relationships, class actions or regulatory violations, which, if they crystallize, may adversely impact upon our results of operation and financial condition in future periods or our reputation. We regularly obtain legal advice and make provisions, as deemed necessary. There is a risk that any losses may be larger than anticipated or provided for or that additional litigation, regulatory actions or other contingent liabilities may arise. Furthermore, even where monetary damages may be relatively small, an adverse finding in a regulatory or litigation matter could harm our reputation or brand, thereby adversely affecting our business.

***In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks.***

In conducting our businesses and maintaining and supporting our global operations, we are subject to risks of possible nationalization, expropriation, price controls, capital controls, exchange controls, economic sanctions and other restrictive governmental actions. We could also be affected by the occurrence of diseases. Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, may also adversely affect global financial markets, general economic and business conditions and MBL's ability to continue operating or trading in a country, which in turn may adversely affect MBL's business, operations and financial condition.

In addition, in some countries in which we do business or may in the future do business, in particular in emerging markets, the laws and regulations applicable to the financial services industry are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure might not be legally enforceable in all cases.

We are also subject in our operations worldwide to rules and regulations relating to corrupt and illegal payments and money laundering, as well as laws, sanctions and economic trade restrictions relating to doing business with certain individuals, groups and countries. While we have invested and continue to invest in our anti-money laundering (“AML”), sanctions, and anti-bribery and anti-corruption compliance programs, the geographical diversity of our operations, employees, clients and customers, as well as the vendors and other third parties that we deal with, increases the risk that we may be found in violation of such rules or regulations and any such violation could subject us to significant penalties or adversely affect our reputation.

We are also subject to the risk that our agreements do not reflect the commercial intent of the parties, especially for complex transactions including those which involve derivatives.

***Failure of our insurance carriers or our failure to maintain adequate insurance cover could adversely impact our results of operations.***

We maintain insurance that we consider to be prudent for the scope and scale of our activities. If our carriers fail to perform their obligations to us and/or our third party cover is insufficient for a particular matter or group of related matters, our net loss exposure could adversely impact our results of operations.



## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at March 31, 2016.

The information relating to MBL Group in the following table is based on our 2016 annual financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

|   | As at              |               |
|---|--------------------|---------------|
|   | Mar 16             | Mar 16        |
|   | US\$m <sup>1</sup> | A\$m          |
| <b>CAPITALIZATION</b>                                 |                    |               |
| <b>Borrowings<sup>2</sup></b>                         |                    |               |
| Debt issued — due greater than 12 months .....        | 26,677             | 34,749        |
| Subordinated debt — due greater than 12 months .....  | 3,174              | 4,134         |
| <b>Total borrowings<sup>3</sup></b> .....             | <b>29,851</b>      | <b>38,883</b> |
| <b>Equity</b>   |                    |               |
| Contributed equity                                    |                    |               |
| Ordinary share capital .....                          | 7,161              | 9,328         |
| Equity contribution from ultimate parent entity ..... | 125                | 163           |
| Macquarie Income Securities .....                     | 300                | 391           |
| Reserves .....  | 371                | 483           |
| Retained earnings .....                               | 1,791              | 2,333         |
| Other non-controlling interests .....                 | 9                  | 12            |
| <b>Total equity</b> .....                             | <b>9,757</b>       | <b>12,710</b> |
| <b>TOTAL CAPITALIZATION</b> .....                     | <b>39,608</b>      | <b>51,593</b> |

<sup>1</sup> Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on March 31, 2016, which was US\$0.7677 per A\$1.00. See “Exchange Rates” for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

<sup>2</sup> At March 31, 2016, we had A\$3.0 billion of secured indebtedness due in greater than 12 months compared to A\$1.0 billion at March 31, 2015.

<sup>3</sup> Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short-term debt totaled A\$19.5 billion as at March 31, 2016 and securitizations totaled A\$15.0 billion as at March 31, 2016 compared to A\$20.4 billion and A\$16.1 billion, respectively, as at March 31, 2015.

For details on our short-term debt position as at March 31, 2016, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Liquidity” in this Report.

## MACQUARIE BANK LIMITED

### Overview

MBL is an APRA regulated ADI headquartered in Sydney, Australia and is a wholly owned subsidiary of MGL. As a provider of banking, financial, advisory, investment and funds management services, MBL is primarily a client-driven business which generates income by providing a diversified range of products and services to clients. MBL Group acts on behalf of institutional, corporate and retail clients and counterparties around the world.

At March 31, 2016, MBL employed over 4,700 staff, had total assets of A\$181.6 billion and total equity of A\$12.7 billion. For the 2016 fiscal year, MBL net operating income was A\$5.6 billion and profit after tax attributable to ordinary equity holders was A\$2,090 million. As at March 31, 2016, MBL conducted its operations in 20 countries, with 51% of MBL Group's revenues from external customers derived from regions outside Australia. See "— Regional activity" below for further information.

MBL's ordinary shares were listed on the ASX from July 29, 1996 until the Restructure in November 2007. Prior to the Restructure, MBL was a widely held ASX-listed public company and engaged in certain investment banking activities through Macquarie Capital. On November 19, 2007, when the Restructure was completed, MBL became an indirect wholly owned subsidiary of MGL, a new ASX-listed company, and MBL Group transferred to the Non-Banking Group most of the assets and businesses of Macquarie Capital, and some less financially significant assets and businesses of the former Equity Markets group (now part of Macquarie Securities) and Treasury & Commodities (now part of Commodities & Financial Markets). Although MBL's ordinary shares are no longer listed on the ASX, MBL's Macquarie Income Securities continue to be listed on the ASX and, accordingly, MBL remains subject to the disclosure and other requirements of the ASX as they apply to companies with debt securities listed on the ASX.

MBL's registered office and principal place of business is Level 6, 50 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-3333.

### *Board and management changes during the 2016 fiscal year*

The following board and management changes occurred since the beginning of the 2016 fiscal year:

- H Kevin McCann AM retired as Non-Executive Chairman and a Voting Director of MBL and MGL, effective March 31, 2016.
- Peter Warne was appointed Non-Executive Chairman of the Boards of MBL and MGL, effective on Mr. McCann's retirement. Mr. Warne was appointed an Independent Voting Director of MBL in July 2007 and of MGL in August 2007. Mr. Warne has extensive knowledge of, and experience in, financial services and investment banking, through a number of roles at Bankers Trust Australia Limited, including as Head of its Financial Markets Group from 1988 to 1999. Mr. Warne was a director of the Sydney Futures Exchange ("SFE") from 1990 to 1999, then from 2000 to 2006. He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the Australian Securities Exchange ("ASX Limited") in July 2006, he became a director of ASX Limited, a position he still holds. Mr. Warne is Chairman of ALE Property Group and OzForex Group Limited. He is also a Director of New South Wales Treasury Corporation and a Patron of Macquarie University Foundation.

### *Recent developments*

On April 15, 2015, the Macquarie Investment Management division was transferred from the Banking Group to the Non-Banking Group. For the 2016 fiscal year, the Macquarie Investment Management division earned profit after income tax of A\$1,040 million, compared to the total MBL profit after income tax of A\$2,090 million, a 91% increase in total MBL profit after income tax compared to the year ended March 31, 2015. For further information on these divisions, see "— Operating groups — Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division)".

On October 8, 2015, MGL announced that it had entered into an agreement to acquire the Esanda Portfolio from ANZ for A\$8.2 billion.

### **Organizational structure**

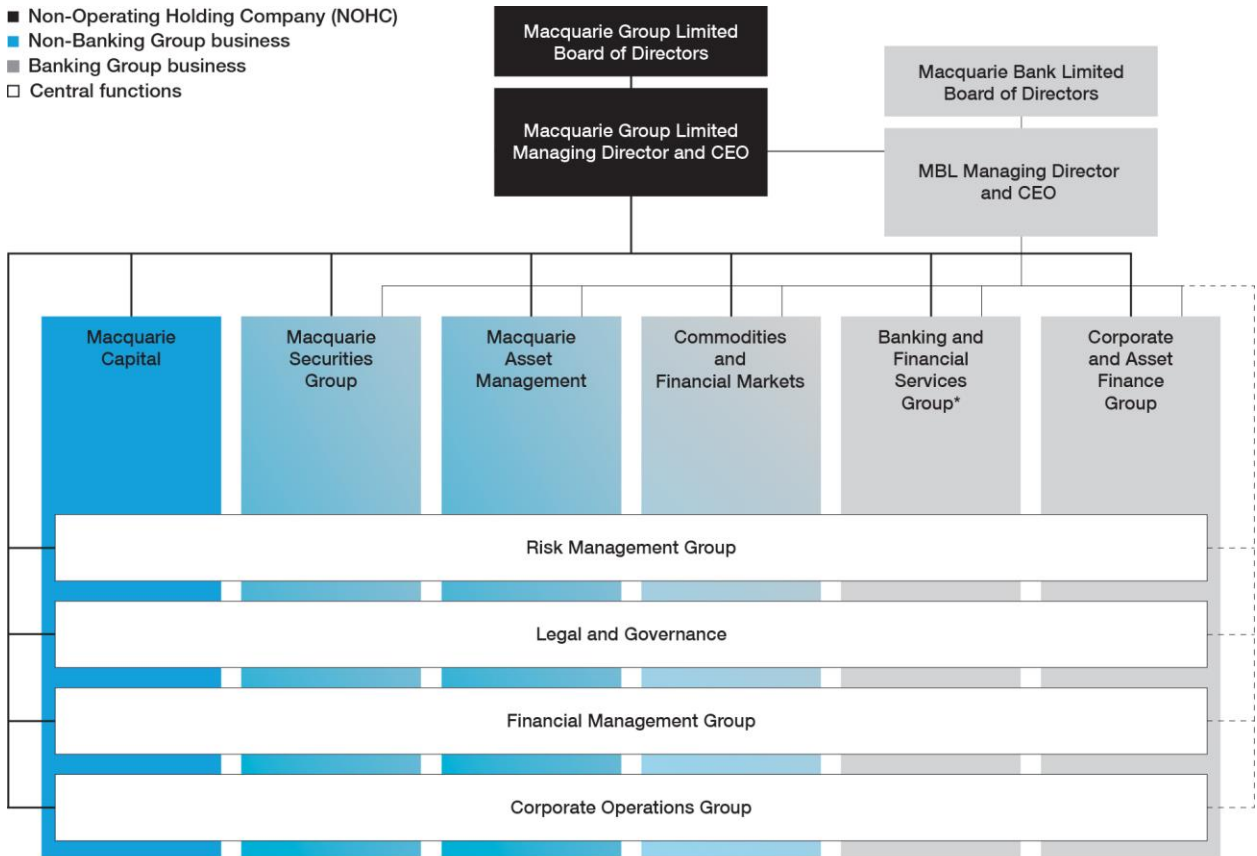
MBL is an indirect wholly owned subsidiary of MGL and forms part of the Banking Group. MBL comprises five operating groups: Corporate & Asset Finance; Banking & Financial Services; Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities); and Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions).

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Company Secretarial, Media Relations, Corporate Communications and Investor Relations Services, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time.

Items of income and expense within the Corporate segment include earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

MBL and MGL have corporate governance and policy frameworks that meet APRA's requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL's liquidity and funding, see the discussion under "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity". Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

The following diagram shows our current organizational structure of MGL Group and reflects the composition of the Banking and Non-Banking Groups.



As at 8 May 2015  
 \*The current Group Head of BFS is also the Deputy Group CEO.

MGL and MBL will continue to monitor and review the appropriateness of the MGL structure, including the provision of shared services. From time to time, the optimal allocation of MGL’s businesses between the Banking Group and the Non-Banking Group and within the Banking Group and the Non-Banking Group may be adjusted and MGL and we may make changes in light of relevant factors including business growth, regulatory considerations, market developments and counterparty considerations.

## Our key strengths

We believe our profitability, the diversification of our businesses and our geographic spread has been supported by the following key strengths:

- *Leading Australian and strong international franchise.* We are a leading Australian financial services firm that provides diverse financial services in Australia, with particular strengths in funds management, securities, foreign exchange and energy and commodities trading. This has created a strong base for our domestic and international growth and diversification. Over the last 10 years, we have significantly increased the amount of business we conduct outside of Australia and have transformed from a leading Australian financial services firm growing internationally into a global provider of diversified financial services headquartered in Australia. See “— Our history and evolution” below for further information.
- *Strong brand and reputation.* We believe our business successes have resulted in us achieving a level of recognition for quality, integrity and innovative products and services that has been an important element in our ability to maintain, grow and diversify our businesses.
- *Diversified earnings.* Our diversified earnings base has been an important factor in our successful growth. MBL Group’s diverse sources of income include the following:
  - *Fee and commission income, including:*
    - Brokerage and commission income from brokerage fee income from Banking & Financial Services, as well as brokerage revenues in futures execution and clearing markets from Commodities & Financial Markets;
    - Funds management fee income (including base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks) from Macquarie Asset Management;
    - Other fee and commission income, which includes fees earned on Funds under Administration, including the wrap platform, insurance, business lending, credit cards and mortgages, as well as structuring fees, capital protection fees, income from True Index products and any other fee income not reported elsewhere; and
    - Income from life investment contracts and other unitholder investment assets from the provision of life insurance by Macquarie Life.
  - *Trading income* generated predominantly through client trading activities and products issued by Macquarie Securities and Commodities & Financial Markets;
  - *Interest income* earned on residential mortgages, loans to Australian businesses, insurance premium funding and credit cards in Banking & Financial Services, interest income on trading assets from Commodities & Financial Markets and Macquarie Securities, and leasing, corporate lending and asset financing activities of Corporate & Asset Finance;
  - *Other income* from the sale of asset and equity investments, gains on the deconsolidation of controlled entities, operating lease income, dividends and distributions; and
  - *Equity accounted income* from principal investments in assets and businesses where significant influence is present.
- *Geographic diversity.* As at March 31, 2016, we employed over 4,700 people in 20 countries. Of those staff, approximately 28% were located in offshore markets. As MBL Group has expanded, we have applied

the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.

- *Ability to adapt to change.* Over time, we have demonstrated an ability to adapt to changing market conditions. We have sought to take advantage of new opportunities for acquisitions and organic growth in our areas of expertise and have also demonstrated a preparedness to exit businesses once profit opportunities have been exhausted. We believe our acquisitions have complemented our existing expertise in areas such as lending and leasing, energy, financial institutions and funds management and demonstrated our track record of successfully integrating new businesses. For further details of significant acquisitions, see “— Our history and evolution” below.
- *Selective approach to growth and diversification.* In addition to adapting our existing businesses and expanding organically, we actively seek to diversify and grow our businesses in selective areas of expertise. We believe that our strategy of expanding selectively, seeking only to enter markets where our particular skills or expertise deliver added value to clients, maximizes our potential for success and is intended to minimize unexpected losses or reputational impacts as we seek to grow and diversify.
- *Experience managing growth and diversity.* The experience of our management team in managing our growth and diversification has been important to our success in realizing the benefits and controlling the risks associated with undertaking varying businesses, developing scale and growing in new and existing geographic regions.
- *Business focus on fee income.* Our main business focus is on providing services to our clients rather than engaging in principal activities. While several of our businesses have and expect to continue to undertake principal investments as part of their funds management strategies, our main focus is on generating management fees, not assuming significant principal exposure.
- *Strong capital position.* MBL is regulated as an ADI by APRA and, as a result, is subject to APRA’s capital adequacy requirements. As at March 31, 2016, the Banking Group had a Harmonized Basel III Common Equity Tier 1 capital ratio of 12.5%, a Tier 1 capital ratio of 13.6% and a total capital ratio of 15.7%. The Banking Group’s APRA Basel III Common Equity Tier 1 capital ratio was 10.7%, Tier 1 capital ratio was 11.8%, and a total capital ratio was 14.1%. MBL Group continues to monitor regulatory and market developments in relation to liquidity and capital management, as discussed below under “Regulation and Supervision”. For further information on our regulatory capital position as at March 31, 2016, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Capital Analysis” in this Report.
- *Risk management.* Managing risk is an integral part of our business, and we believe strong prudential management has been key to our success. Where we assume risk, we do so in what we believe to be a calculated and controlled framework. Our risk management framework is described in Note 37 to our 2016 annual financial statements and in the “Risk Management Report” in the extracts from the 2016 Annual Report of MGL incorporated by reference herein. While our approach to risk is embedded across all business units, Risk Management manages the key risks applicable to the entire MGL Group along the following principles:
  - *Independence.* Risk Management assesses and monitors risks for the entire MGL Group, is independent of the operating groups and is required to approve all major risk acceptance decisions.
  - *Centralized risk management.* Risk Management’s MGL Group-wide responsibilities (including for MBL) enable it to assess risks from the perspective of the entire MGL Group and allow it to apply a consistent approach across all operating areas.
  - *Approval of new business activities.* Operating groups are required to consult with Risk Management before undertaking new businesses or activities, offering new products or entering new markets. Risk

Management's responsibility is to identify, quantify and assess the likely risks and establish prudential limits that, where appropriate, are approved by our Executive Committee and Board.

- *Continuous assessment.* Risk Management's responsibilities include the ongoing review of the risks that our businesses are exposed to in order to account for changes in market circumstances and to our operating groups.
- *Frequent monitoring.* Risk Management uses centralized systems to monitor credit and market risks daily and liaise with operating groups and supporting divisions.

## **Our strategy**

Consistent with the principles of opportunity, accountability and integrity, Macquarie adopts a business strategy focused on the medium-term with the following key aspects:

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

## **Our history and evolution**

MBL Group, the predecessor of MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London. We obtained an Australian banking license as MBL in 1985 and in 1996, MBL was publicly listed on the ASX.

MBL's ordinary shares were listed on ASX from July 29, 1996 until the Restructure in November 2007. Prior to the Restructure, MBL was a widely held ASX-listed public company and engaged in certain investment banking activities through Macquarie Capital. On November 19, 2007, when the Restructure was completed, MBL became an indirect subsidiary of MGL, a new ASX-listed company, and MBL Group transferred most of the assets and businesses of Macquarie Capital, and some less financially significant assets and businesses of the former Equity Markets group (now part of Macquarie Securities) and Treasury & Commodities (now part of Commodities & Financial Markets) to the Non-Banking Group. The activities not transferred to the Non-Banking Group upon the Restructure formed part of the Banking Group or MBL. As MGL is the successor to MBL Group's businesses, the historical financial statements of MBL Group reflect the historical results of operation and financial condition of MGL Group's businesses.

Since listing, MBL has diversified its operations by business line and geography through a mix of organic growth and strategic acquisitions, including but not limited to the acquisition of the Bankers' Trust Australia Investment Banking business in the 1999 fiscal year.

In light of opportunities that emerged from the global financial crisis and ensuing market conditions, MBL made a number of strategic acquisitions which complemented existing operations and strengthened its global platform. These included, but were not limited to, the following:

- the acquisition of Constellation Energy in the 2009 fiscal year, which enhanced Commodities & Financial Markets' position within the North American natural gas market;
- the acquisition of Delaware Investments in the 2010 fiscal year, which enhanced Macquarie Asset Management's global asset management capability;
- the acquisition of the Ford Credit and GMAC portfolios in the 2010 and 2011 fiscal years, respectively, which enhanced Corporate & Asset Finance's motor vehicle leasing portfolio; and
- the acquisition of the ILFC aircraft operating lease portfolio in the 2011 fiscal year, which enhanced Corporate & Asset Finance's portfolio and the Macquarie Aviation Finance business.

In addition to these strategic acquisitions, organic growth initiatives, particularly in the 2010 and 2011 fiscal years, such as the hiring of individuals and teams with extensive experience in targeted industries, added greater regional depth to key businesses. This allowed many of our businesses to expand their product offerings internationally. For further information on regional growth, see "— Regional activity" below for further information.

Evolution has played an important role in the growth of MBL Group's businesses and the development of global expertise in key areas. MBL Group intends to continue to evolve its products and services to ensure that it has the appropriate business mix to suit prevailing market conditions and client needs.



## Our business

### Overview of MBL Group

At March 31, 2016, MBL had total assets of A\$181.6 billion and total equity of A\$12.7 billion. For the year ended March 31, 2016, our net operating income from ordinary activities was A\$5.6 billion and profit after tax attributable to ordinary equity holders was A\$2,090 million, which includes profit from continuing operations of A\$1,050 million and profit from discontinued operations of A\$1,040 million. Of MBL Group's revenues from external customers, 51% were derived from regions outside Australia.

The tables below show the relative net operating income and profit contribution from ordinary activities of each of our operating groups for the years ended March 31, 2016 and 2015.

*Net operating income from ordinary activities of MBL Group by operating group for the years ended March 31, 2016 and 2015<sup>1</sup>*

|   | Year ended   |              | Movement |
|---|--------------|--------------|----------|
|   | Mar 16       | Mar 15       |          |
|   | A\$m         | A\$m         | %        |
| Commodities & Financial Markets <sup>2</sup> .....            | 1,597        | 1,710        | (7)      |
| Macquarie Securities <sup>3</sup> .....                       | 643          | 368          | 75       |
| Banking & Financial Services .....                            | 1,462        | 1,340        | 9        |
| Macquarie Asset Management <sup>4</sup> .....                 | 191          | 218          | (12)     |
| Corporate & Asset Finance .....                               | 1,709        | 1,585        | 8        |
| <b>Total net operating income from operating groups</b> ..... | <b>5,602</b> | <b>5,221</b> | <b>7</b> |
| Corporate <sup>5</sup> .....                                  | 41           | 74           | (45)     |
| <b>Total net operating income</b> .....                       | <b>5,643</b> | <b>5,295</b> | <b>7</b> |

<sup>1</sup> For further information on our segment reporting, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment overview" and Note 3 to our 2016 annual financial statements.

<sup>2</sup> Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

<sup>3</sup> Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

<sup>4</sup> Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets and Macquarie Investment Management divisions that are part of the Non-Banking Group. See "Financial Information Presentation—Our historical financial statements."

<sup>5</sup> The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

*Profit from ordinary activities of MBL Group by operating group  
for the years ended March 31, 2016 and 2015<sup>1</sup>*

|   | Year ended   |              | Movement  |
|---|--------------|--------------|-----------|
|   | Mar 16       | Mar 15       |           |
|   | A\$m         | A\$m         | %         |
| Commodities & Financial Markets <sup>2</sup> .....              | 532          | 768          | (31)      |
| Macquarie Securities <sup>3</sup> .....                         | 200          | 1            | *         |
| Banking & Financial Services.....                               | 348          | 280          | 24        |
| Macquarie Asset Management <sup>4</sup> .....                   | 75           | 97           | (23)      |
| Corporate & Asset Finance.....                                  | 1,121        | 1,108        | 1         |
| <b>Total contribution to profit from operating groups</b> ..... | <b>2,276</b> | <b>2,254</b> | <b>1</b>  |
| Corporate <sup>5</sup> .....                                    | (1,226)      | (1,348)      | (9)       |
| <b>Net profit after tax</b> .....                               | <b>1,050</b> | <b>906</b>   | <b>16</b> |

<sup>1</sup> For further information on our segment reporting, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment overview” and Note 3 to our 2016 annual financial statements.

<sup>2</sup> Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

<sup>3</sup> Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

<sup>4</sup> Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets and Macquarie Investment Management divisions that are part of the Non-Banking Group. See “Financial Information Presentation—Our historical financial statements.”

<sup>5</sup> The Corporate segment includes earnings from the net impact of managing liquidity for MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

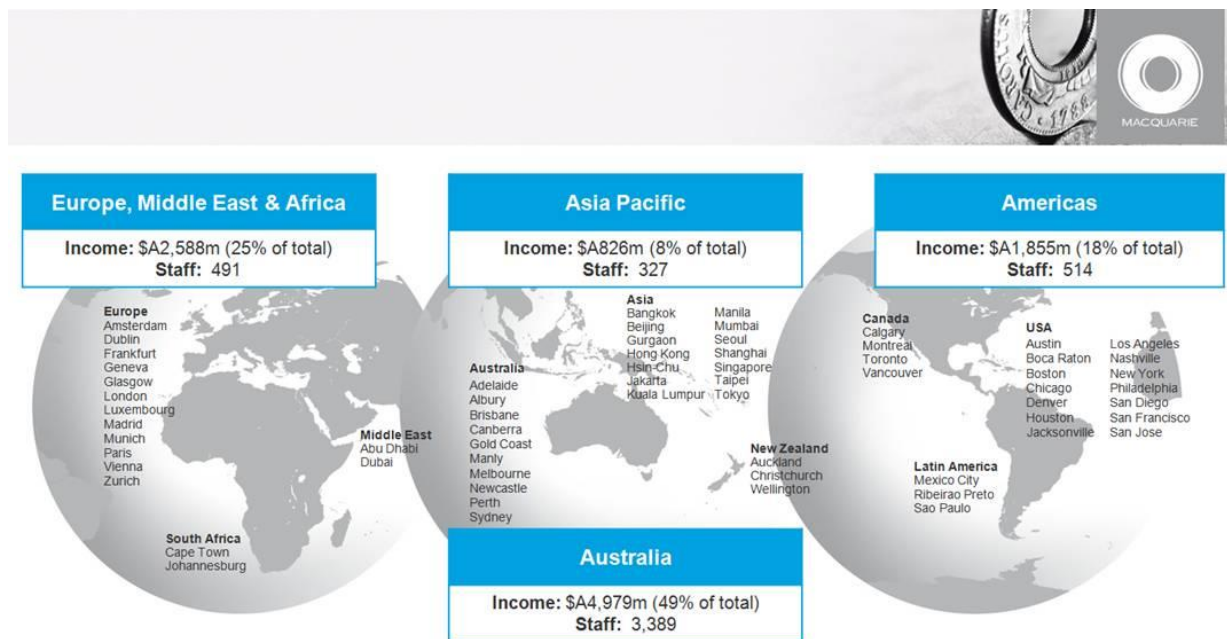
<sup>6</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

## Regional activity

At March 31, 2016, MBL Group employed over 4,700 staff globally and conducted its operations in 20 countries.

The chart below shows MBL Group's revenues from external customers by region in the 2016 fiscal year.

*Revenues from external customers of MBL Group<sup>1</sup> by region for the year ended March 31, 2016*



1. Revenue from external customers.

**Australia.** MBL Group has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at March 31, 2016, MBL Group employed over 3,300 staff across Australia and New Zealand. In the 2016 fiscal year, Australia contributed A\$4,979 million (49%) of our revenues from external customers as compared to A\$4,329 million (46%) in the 2015 fiscal year.

**Americas.** MBL Group has been active in the Americas for over 20 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions including Delaware Investments, and Constellation Energy. As at March 31, 2016, MBL Group employed over 500 staff across the United States, Canada and Brazil. In the 2016 fiscal year, the Americas contributed A\$1,855 million (18%) of our revenues from external customers as compared to A\$2,301 million (25%) in the 2015 fiscal year.

**Asia Pacific.** MBL Group has been active in Asia Pacific for more than 20 years, when we established our first office in Hong Kong in 1995. As at March 31, 2016, MBL Group employed over 300 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Singapore and Taiwan. MBL has expanded the regional investment and product platforms of Corporate & Asset Finance as well as Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities), which had established an Asian regional “hub” in Singapore in the 2011 fiscal year. In the 2016 fiscal year, Asia Pacific (including New Zealand) contributed A\$826 million (8%) of our revenues from external customers as compared to A\$572 million (6%) in the 2015 fiscal year.

**Europe, Middle East & Africa.** MBL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2016, MBL Group employed over 400 staff across the United

Kingdom, Germany, Austria, Ireland, Switzerland, South Africa and Dubai. In the 2016 fiscal year, Europe, Middle East & Africa contributed A\$2,588 million (25%) of our revenues from external customers as compared to A\$2,183 million (23%) in the 2015 fiscal year.

For further information on our segment reporting, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment overview” and Note 3 to our 2016 annual financial statements.

## **Operating groups**

### ***Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)***

Commodities & Financial Markets is primarily in the Banking Group, however, certain assets of the Credit Markets business and some other less financially significant activities are in the Non-Banking Group.

Commodities & Financial Markets contributed A\$532 million to MBL Group’s net profit in the 2016 fiscal year and, as at March 31, 2016, had 700 staff operating across 14 countries, with locations in Australia, Asia, the Middle East, North and South America, the United Kingdom and Europe. For further information on Commodities & Financial Markets’ results of operation and financial condition for the year ended March 31, 2016, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment analysis — Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)” in this Report.

Commodities & Financial Markets provides clients with risk and capital solutions across physical and financial markets. Commodities & Financial Markets’ diverse platform has evolved over more than 30 years and provides clients with access to markets, financing, financial hedging and physical execution.

Commodities & Financial Markets services its clients via regional hub offices located in New York, Houston, London, Singapore and Sydney. As a primarily client and counterparty driven business, Commodities & Financial Markets undertakes market making activities and in doing so, acts as principal in accordance with predetermined limits.

Commodities & Financial Markets in MBL Group comprises the following divisions:

*Energy Markets.* Energy Markets provides a full spectrum offering to clients with exposure to the energy sector. The division provides risk management, lending and financing, and physical execution and logistics services across Global Oil, North American Gas and Power, EMEA Gas, Power and Emissions, Australian Power, and Coal. The division’s deep market insights have been developed over more than 10 years, and is supported by in-house technical experts with backgrounds in scheduling, logistics, meteorology, structuring, geology and petroleum engineering. Macquarie Energy was ranked by Platts as the third largest physical gas marketer in North America, the highest ranked non-producer, in the fourth quarter of 2015.

*Fixed Income & Currencies.* Fixed Income & Currencies provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally. The division provides 24-hour price making in all major currency pairs as well as offers structured solutions and risk management hedging services. Additionally, the division offers retail and wholesale currency delivery and technology platforms. In fixed income markets, Fixed Income & Currencies arranges and places primary debt for clients and provides secondary market liquidity in Australian government, semi-government fixed income and inflation linked bond markets, as well as issuance activities and interest rate risk management services via structured solutions and derivative based products.

*Futures.* Futures provides a full range of execution, clearing and financing solutions to corporate and institutional clients, providing continuous 24-hour coverage of all major markets globally. Futures also provides services to other divisions within Commodities & Financial Markets and affiliates within MGL. The division has

specialist expertise in energy, freight, grains and soft commodities as well as a market leading position in Australian interest rate products. It also makes use of leading-edge proprietary technology to provide clients with customized solutions for electronic market access, trade management, consolidated clearing and enhanced customer-specific reporting. The division is a leading provider of these services in Australia and a growing participant in North America, Europe and Asia.

*Metals, Mining & Agriculture.* Metals, Mining & Agriculture provides risk management, lending and financing, and physical execution and logistics services to producers and consumers across the metals, industrial minerals, bulk commodities and agricultural sectors globally. The division also offers commodity-based index products to institutional investors. MGL has been active in metals markets for more than 30 years and in agricultural markets for more than 20 years. It has also provided finance to junior miners for more than 25 years. This specialist knowledge is supported by in-house industry experts such as geologists and mining engineers. MBL is an Associate Broker Clearing Member of the London Metal Exchange, a Clearing Member of the London Clearing House and an Ordinary Member of the London Bullion Market Association.

*Central.* Central fosters and develops various non-division specific, early stage or cross-divisional initiatives as well as housing various Commodities & Financial Markets-wide services including:

- Structured Commodity Finance, which offers services across agriculture, energy and metals including revolving, working capital facilities secured by exchange traded commodities and also provides repurchase-style physical transactions. Additionally, Structured Commodity Finance provides mezzanine debt, structured facilities or transactions in conjunction with other Commodities & Financial Markets divisions;
- Cross-product sales teams, which cover Brazil and Latin America, Eastern Europe and the Commonwealth of Independent States, the Middle East, North Africa and South Korea. The teams specialize in a particular country or region and support all Commodities & Financial Markets product lines in that specific geography;
- Structured Global Markets, which covers cross-border activity, local market structuring, trade solutions and global secured financing;
- Private & Structured Finance in Asia and Australia;
- New jurisdictions and branch initiatives; and
- Joint-venture and alliances.

#### *Recent developments*

There were no significant developments for Commodities & Financial Markets during the 2016 fiscal year.

#### ***Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)***

Macquarie Securities operates businesses both in the Banking Group and Non-Banking Group. The Cash division's activities, which include cash equities broking and equity capital markets services, operate in both the Banking Group (in respect of the Cash division's activities in Hong Kong and clearing and settlement services in Australia) and the Non-Banking Group (in respect of the Cash division's activities in jurisdictions other than Hong Kong and Australia). Generally, the Derivatives and Trading division's activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group, however, certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.

Macquarie Securities contributed A\$200 million to MBL Group's net profit in the 2016 fiscal year and, as at March 31, 2016, had over 100 staff operating across 6 countries, including Australia, Hong Kong, India, Singapore,

the United Kingdom and the United States. For further information on Macquarie Securities' results of operation and financial condition for the year ended March 31, 2016, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment analysis — Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)" in this Report.

Macquarie Securities in MBL Group comprises the following divisions:

*Cash.* The Cash division is a full-service institutional cash equities broker in the Asia Pacific region. It provides equity capital markets products and services through a joint venture with Macquarie Capital. The Cash division forms part of the Non-Banking Group (except in respect of the Cash division's activities in Hong Kong and its Australian based equity clearing and settlement activities, which form part of the Banking Group).

*Derivatives and Trading.* The Derivatives and Trading division combines MBL Group's retail derivatives and trading activities, including sales of retail derivatives, delta one products, equity finance and capital management. The division predominantly forms part of the Banking Group.

#### *Recent developments*

During the year ended March 31, 2016, Macquarie Securities acquired 100% of the Macquarie First South joint venture in South Africa, allowing the business to be fully integrated into the Macquarie platform.

Additionally, Macquarie Securities has continued its investment in technology in order to support the ongoing additional regulatory compliance requirements of the business, including in particular, increased reporting requirements to various regulators in the changing financial services environment.

#### ***Banking & Financial Services***

Banking & Financial Services is in the Banking Group and comprises MBL Group's retail banking and financial services businesses, providing a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisers, brokers and business clients.

Banking & Financial Services contributed A\$348 million to MBL Group's net profit in the 2016 fiscal year and, as at March 31, 2016, had over 2,100 staff operating predominantly in Australia.

Banking & Financial Services comprises the following three divisions:

*Personal Banking.* Personal Banking provides retail financial products such as mortgages, credit cards and deposits and serves customers through strong mortgage intermediary relationships, a white-label personal banking platform and Macquarie branded offerings.

*Wealth Management.* Wealth Management provides superannuation and insurance products, as well as financial advice, private banking, stockbroking, cash management and wrap platform services. It delivers products and services through institutional relationships, adviser networks and dedicated direct relationships with its clients.

*Business Banking.* Business Banking provides a full range of deposit, lending and payment solutions, as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms, through a variety of channels including dedicated relationship managers.

Banking & Financial Services' Australian mortgage portfolio has grown from A\$24.5 billion at March 31, 2015 to A\$28.5 billion at March 31, 2016, representing approximately 2% of the Australian mortgage market. This includes A\$1.2 billion in residential mortgage portfolios acquired during the year.

Banking & Financial Services' funds on platform have grown strongly from A\$48.0 billion at March 31, 2015 to A\$58.4 billion at March 31, 2016, due to strong net inflows and the migration of full service brokering accounts

to the Vision platform. In addition, Macquarie Life inforce risk premiums have increased from A\$223 million at March 31, 2015 to A\$250 million at March 31, 2016.

Retail cash deposits have increased from A\$37.3 billion at March 31, 2015 to A\$40.4 billion at March 31, 2016. This was primarily due to increased Macquarie Cash Management Account and Business Banking At-Call deposits.

For further information on Banking & Financial Services' results of operation and financial condition for the year ended March 31, 2016, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment analysis — Banking & Financial Services" in this Report.

#### *Recent developments*

During the year ended March 31, 2016, Banking & Financial Services launched an intuitive new digital banking offering, including the first Macquarie savings and transaction accounts and a new Macquarie Black credit card with premium rewards.

In February 2016, Banking & Financial Services announced it had entered into an agreement to provide administration services and develop a new private labeled wrap offering for ANZ Banking Group's wealth administration platform. Additionally, Banking & Financial Services launched OwnersAdvisory by Macquarie to provide custom online portfolio advice.

Banking & Financial Services also announced in March 2016 the sale of Macquarie Life to Zurich Australia Limited, which is expected to be completed in the second half of the 2016 calendar year.

Banking & Financial Services has continued its investment in technology projects to improve client experience and the scalability of its operating model, and is currently in year three of its five year program to deliver a Core Banking platform with real time capability.

#### ***Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division)***

Macquarie Asset Management operates businesses in both the Banking Group and the Non-Banking Group. In the Banking Group, Macquarie Asset Management offers a diverse range of tailored investment solutions over funds and listed equities. In the Non-Banking Group, Macquarie Asset Management offers a diverse range of securities investment management products and capabilities and manages alternative assets, specializing in infrastructure, energy, real estate and agriculture via public and private funds, co-investments, partnerships and separately managed accounts.

Macquarie Asset Management contributed A\$75 million to MBL Group's profit in the 2016 fiscal year and, as at March 31, 2016, had over 100 staff operating across 10 countries across Australia, the Americas, Europe and Asia.

As at March 31, 2016, Macquarie Asset Management had Assets under Management of A\$3.6 billion. For further information on Macquarie Asset Management's results of operation and financial condition for the year ended March 31, 2016, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment analysis — Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division)" in this Report. For further information on Macquarie Asset Management's Assets under Management, see "— Funds management business — Assets under Management" in this Report.

During the year ended March 31, 2015, Macquarie Asset Management operated across the following three divisions: Macquarie Investment Management, Macquarie Specialised Investment Solutions, which formed part of the Banking Group, and Macquarie Infrastructure and Real Assets, which formed part of the Non-Banking Group. On April 15, 2015, the Macquarie Investment Management division was transferred from the Banking Group to the

Non-Banking Group. See “Financial Information Presentation—Our historical financial statements.” For the year ended March 31, 2016, Macquarie Asset Management operated across the Macquarie Specialised Investment Solutions division under the Banking Group.

Further details of the Macquarie Specialised Investment Solutions division within the Banking Group are contained below:

*Macquarie Specialised Investment Solutions.* Macquarie Specialised Investment Solutions manufactures and distributes a range of tailored investment solutions over funds and listed equities including fund-linked products, principal protected investments, a hedge fund incubation platform, infrastructure debt funds management, restructuring solutions and agricultural investment solutions.

#### *Recent developments*

On April 15, 2015, Macquarie Asset Management’s securities investment management business, Macquarie Investment Management, was transferred from the Banking Group to the Non-Banking Group. This reorganization aligned the ownership of Macquarie Asset Management fund management activities under the Non-Banking Group. See “—Overview—Recent Developments.”

During the year ended March 31, 2016, Macquarie Specialised Investment Solutions continued to grow its infrastructure debt investment solutions business with total third party investor commitments of over A\$5.5 billion and raised over A\$0.9 billion for Australian retail principal protected investments and specialist funds and successfully closed the sale of the almond orchard in August 2015.

#### ***Corporate & Asset Finance***

Corporate & Asset Finance provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate & Asset Finance specializes in corporate debt and asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

Corporate & Asset Finance contributed A\$1,121 million to MBL Group’s profit in the 2016 fiscal year and, as at March 31, 2016, had over 1,300 staff operating across 18 countries, including Australia, New Zealand, South Korea, the United States and the United Kingdom. For further information on Corporate & Asset Finance’s results of operation and financial condition for the year ended March 31, 2016, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment analysis — Corporate & Asset Finance” in this Report.

At March 31, 2016, Corporate & Asset Finance managed an asset and loan portfolio of A\$39.3 billion, which represents an increase of 37% from A\$28.6 billion at March 31, 2015. The asset finance portfolio of A\$29.8 billion increased 71% from A\$17.4 billion at March 31, 2015, which was mostly driven by the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited (“AWAS”) and the acquisition of the Esanda Portfolio.

The funded loan portfolio of A\$9.5 billion at March 31, 2016 decreased 15% from A\$11.2 billion at March 31, 2015, due to net repayments and realizations. Portfolio additions of A\$2.8 billion comprised A\$1.4 billion of new primary financings across corporate and real estate, weighted towards bespoke originations and A\$1.3 billion of corporate loans and similar assets acquired in the secondary market and A\$0.1 billion of commercial real estate loans acquired in the secondary market.

During the 2016 fiscal year, securitization activity continued with A\$2.6 billion of motor vehicle and equipment leases and loans securitized.

Corporate & Asset Finance comprises the following eight businesses:



*Macquarie Aviation.* Macquarie Aviation provides operating leases of commercial jet aircraft to airlines, helps clients increase fleet management capability and minimizes market and equipment obsolescence risk.

*Macquarie Equipment Finance.* Macquarie Equipment Finance provides specialist equipment finance and services solutions in healthcare, technology, communications, materials handling, manufacturing and related equipment. Macquarie Equipment Finance provides these services directly to large customers through vendor finance solutions developed for equipment manufacturers and resellers, and with other financial services partners.

*Macquarie Leasing.* Macquarie Leasing provides finance leases and loans to small to medium enterprises, corporate, government and retail clients in Australia. Macquarie Leasing offers products including finance leases, novated lease agreements, loans and commercial hire purchases for motor vehicles and other income producing plant and equipment. The business provides floor plan finance to Australian motor vehicle manufacturers and also has a presence in the United Kingdom.

*Macquarie Lending.* Macquarie Lending provides customized capital solutions and financing certainty to its clients through primary and secondary transactions. It is a leading market participant in bespoke primary lending and is a niche acquirer of loans and other assets in the secondary market. The team has experience across a variety of industry groups including real estate, infrastructure, telecommunications, media, entertainment and technology, leisure and healthcare.

*Macquarie Energy Leasing.* Macquarie Energy Leasing owns an electricity and gas metering portfolio in the United Kingdom. The portfolio comprises ‘traditional’ meters and newer ‘smart’ meters. Clients are major United Kingdom energy providers. Macquarie Energy Leasing also finances solar energy assets in Australia.

*Macquarie European Rail.* Macquarie European Rail offers operating lease financing for customers requiring passenger, locomotive and freight assets in Europe. In addition, Macquarie Rail offers portfolio sale and leaseback, and portfolio acquisition services.

*Macquarie CAF Resources.* Macquarie CAF Resources provides finance for large mining, construction and drilling equipment through finance and operating leases and secured lending products. The team operates globally and its clients come from a variety of industries including natural resources, civil contracting, aggregate supply and heavy construction. The business complements Macquarie’s existing capabilities in Resources including mergers and acquisitions, project lending, commodity hedging and trading.

*Macquarie Rotorcraft Leasing.* Macquarie Rotorcraft Leasing is a full service helicopter leasing business focused on industries including offshore oil and gas, medical transport, search and rescue, utility and executive transport.

#### *Recent developments*

In November 2015, Macquarie Leasing acquired the Esanda Portfolio from ANZ for A\$8.2 billion. The acquisition was funded from existing funding sources combined with third-party financing arrangements. The Esanda Portfolio is currently being transitioned into Macquarie with the acquisition almost doubling the Macquarie Leasing portfolio, which now has over 600,000 contracts.

Further to the commitment entered into in March 2015, Corporate & Asset Finance has acquired 83 of the aircraft from AWAS out of the total portfolio committed to purchase at March 31, 2016. The remaining aircraft from the original commitment of 90 failed to meet conditions precedent to purchase. The aircraft portfolio totals A\$8.9 billion as at March 31, 2016.

In July 2015, Corporate & Asset Finance acquired Advantage Funding, a specialty vehicle financier based in the United States, with a portfolio of A\$446 million as at March 31, 2016.

The portfolios within the European Rail, Equipment Finance and Energy Leasing businesses continued to grow, excluding the effect of the strengthening Australian dollar, and the businesses are performing well.

In the Lending business, notable transactions included the acquisition of two residential mortgage portfolios in the United Kingdom totaling £146.9 million, the acquisition of a controlling interest in Energetics, a United Kingdom gas and electricity connectors business, and the acquisition of debt and equity of an 8.8 mile toll road in Virginia in the United States. Asset quality of the portfolio remains sound and the portfolio continues to generate strong overall returns.

### ***Corporate***

The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

Corporate contributed a net loss of A\$1,226 million in the 2016 fiscal year.

For further information on Corporate's results of operation and financial condition for the year ended March 31, 2016, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Year ended March 31, 2016 compared to year ended March 31, 2015 — Segment analysis — Corporate" in this Report.

### **Funds management business**

In the Banking Group, Macquarie Asset Management, through Macquarie Specialised Investment Solutions, will continue to manufacture and distribute a range of tailored investment solutions over funds and listed equities, including fund-linked products, capital protected investments, a hedge fund incubation platform, infrastructure debt funds management, restructuring solutions and agricultural investment solutions. See "— Operating groups — Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division)" above for further information.

Assets under Management provides a consistent measure of the scale of MBL Group's funds management activities across our operating groups in the Banking Group, which is discussed in "— Assets under Management" section below.

### ***Assets under Management***

On April 15, 2015, the Macquarie Investment Management division was transferred from the Banking Group to the Non-Banking Group. Accordingly, the numbers presented for the fiscal year ended March 31, 2015 and the fiscal year ended March 31, 2016, in this section and elsewhere in this Report are adjusted and reflect this transfer unless otherwise indicated. See "Macquarie Bank Limited — Overview — Recent developments" on page 14 of our 2015 Annual U.S. Disclosure Report and "Financial Information Presentation — Transfer of Macquarie Investment Management" for further information.

MBL Group had an aggregate of A\$5.3 billion of Assets under Management as at March 31, 2016, a 15% increase from A\$4.6 billion at March 31, 2015. The increase was largely due to net flows in Macquarie Asset Management's infrastructure debt investment solutions business.

### **Legal proceedings and regulatory matters**

#### ***Legal proceedings***

On January 29, 2015, Macquarie Equities Limited ("MEL"), a subsidiary of MBL, concluded an Enforceable Undertaking ("EU") with ASIC after KPMG, the Independent Expert, submitted a final report to ASIC confirming all deliverables outlined in the Implementation Plan had been completed. MEL addressed ASIC's concerns about the effectiveness of compliance within Macquarie Private Wealth ("MPW") by investing approximately A\$49 million to improve the record keeping, monitoring and supervision within MPW. In April 2016 MEL completed to ASIC's

satisfaction a 12 month program which built upon the completed EU implementation plan and underwent third-party evaluations to test the operational effectiveness of the improved controls to ensure change is sustained. In addition, the client remediation program is ongoing based on the consistent application of the Financial Ombudsman Service principles and subject to continued oversight by Deloitte and ASIC.

Revenue authorities undertake risk reviews and audits as part of their normal activities. We have assessed those matters which have been identified in such reviews and audits as well as other taxation claims and litigation, including seeking advice where appropriate.

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made (including for those matters referred to in the two preceding paragraphs), as described in Note 33 to our 2016 annual financial statements. We do not believe that the outcome of any such liabilities, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

## **Competition**

The financial services industry and all of our businesses are intensely competitive, and we expect them to remain so. See “Risk Factors — Competitive pressure, both in the financial services industry as well as in the other industries in which we operate, could adversely impact our business and results of operation”. We compete, both in Australia and internationally, with asset managers, retail and commercial banks, non-bank mortgage brokers, private banking firms, investment banking firms and brokerage firms.

In Australia, we face significant competition from the four major Australian commercial banks, international banks, regional commercial banks, building societies, brokerage firms, private equity firms, mortgage repackagers and other financial intermediaries. In recent years, competition has increased as international banks have established an Australian presence, large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships.

The international trend towards consolidation and strategic alliances has significantly increased the capital base and geographic reach of some of our competitors. This trend has also hastened the globalization of the securities and financial services markets. To take advantage of some of our recent strategic acquisitions and organic growth opportunities, we will need to compete successfully with financial institutions that are larger and that may have a stronger local presence and longer operating history outside of Australia.

In North America, Europe and Asia, the principal markets in which we operate outside Australia, we compete with commercial banks, investment banking and brokerage firms, private equity firms, large fund managers, integrated energy companies and other broad-based financial services firms that have historically offered a broad range of products to enhance their competitive position. See “Risk Factors — Competitive pressure, both in the financial services industry as well as in the other industries in which we operate, could adversely impact our business and results of operation”.

In other overseas markets where we offer limited products and services, we face the challenge of competing with firms that offer a broader range of services than we do, are better known or have a broader platform or more financial, capital, employee or other resources. In an attempt to overcome these barriers, MBL Group or MGL Group, where appropriate, has established alliances with local providers in a number of international markets in an attempt to benefit from the market strength of an existing player.

We also face intense competition in attracting and retaining qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees and to continue to compensate employees competitively amid intense public and regulatory scrutiny on the employee remuneration practices of financial institutions. See “Risk Factors — Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially

adversely affect our performance” and “Regulation and Supervision — Australia” in this Report for more information on the regulation of our remuneration practices.

## REGULATION AND SUPERVISION

### Australia

In Australia, the principal regulators that supervise and regulate our activities are the Australian Prudential Regulation Authority (“APRA”), the Reserve Bank of Australia (“RBA”), the Australian Securities and Investments Commission (“ASIC”), ASX Limited (as the operator of the Australian Securities Exchange (“ASX”) market), Australian Securities Exchange Limited (as the operator of the ASX24 (formerly known as the Sydney Futures Exchange) market), the Australian Competition and Consumer Commission (“ACCC”) and the Australian Transaction Reports and Analysis Centre (“AUSTRAC”).

Set out below is a summary of certain key Australian legislative provisions that are applicable to our operations, and a summary of the functions of each of the principal regulators.

### APRA

APRA is the prudential regulator of the Australian financial services industry. APRA establishes and enforces prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions under APRA’s supervision are met within a stable, efficient and competitive financial system. MBL is an ADI, and MGL is a NOHC, under the Australian Banking Act and, as such, each is subject to prudential regulation and supervision by APRA. MBL and MGL have corporate governance and policy frameworks designed to meet APRA’s requirements for ADIs and NOHCs, respectively.

Under the Australian Banking Act, APRA has powers to issue directions to MBL and MGL and, in certain circumstances, to appoint an ADI statutory manager to take control of MBL’s business. In addition, APRA may, in certain circumstances, require MBL to transfer all or part of its business to another entity under the Australian Financial Sector (Business Transfer and Group Restructure) Act 1999 (the “*Australian FSBT Act*”). A transfer under the Australian FSBT Act overrides anything in any contract or agreement to which MBL is a party to, including the terms of its debt securities. APRA’s powers under the Australian Banking Act and Australian FSBT Act are discretionary and may be more likely to be exercised by it in circumstances where MBL or MGL is in material breach of applicable banking laws and/or regulations or is in financial distress, including where MBL or MGL has contravened the Australian Banking Act (or any related regulations or other instruments made, or conditions imposed, under that Act), or where MBL has informed APRA that it is unlikely to meet its obligations or that it is about to suspend its payments. In these circumstances, APRA is required to have regard to protecting the interests of MBL’s depositors and to the stability of the Australian financial system, but not necessarily to the interests of other creditors of MBL and MGL.

In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management, securitization and covered bonds activities and governance. APRA discharges its responsibilities by requiring ADIs to regularly provide it with reports which set forth a broad range of information, including financial and statistical information relating to their financial position and information in respect of prudential and other matters. This information is not generally available to investors. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations. In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from ADIs with selective “*on site*” visits and formal meetings with the ADIs’ senior management and external auditors. The external auditors provide additional assurance to APRA that prudential standards applicable to ADIs are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

APRA is also responsible for the prudential regulation and supervision of life and general insurance companies and superannuation funds ultimately for the benefit of policyholders and superannuation fund beneficiaries. MGL Group’s life insurance and funds management businesses are subject to and impacted by those regulations which,

among other things, regulate the operation and capital adequacy standards of statutory funds for the life insurance business and provide for the licensing of trustees of superannuation funds.

*APRA's prudential supervision – Capital adequacy*

APRA's approach to the assessment of an ADI's capital adequacy is based on the risk-based capital adequacy framework set out in the Basel Committee on Banking Supervisions' ("*Basel Committee*") publications, "*International Convergence of Capital Measurement and Capital Standards a Revised Framework*" ("*Basel II*"), revised in June 2006 and "*A global regulatory framework for more resilient banks and banking systems*" ("*Basel III*"), released in December 2010 and revised in June 2011. APRA's implementation of the Basel III capital framework began on January 1, 2013.

Consistent with Basel III, APRA's present approach provides for a quantitative measure of an ADI's capital adequacy and focuses on matters including: (i) the credit risk associated with an ADI's on-balance sheet and off-balance sheet exposures; (ii) the operational risk associated with an ADI's banking activities; (iii) the market risk arising from an ADI's trading activities where applicable, the interest rate risk arising from nominal financial intermediation, as distinct from trading activities; (iv) the risk associated with securitization; and (v) the amount, form and quality of capital held by an ADI to act as a buffer against these and other exposures.

Under its Prudential Standard *APS 111 – Capital Adequacy: Measurement of Capital* ("*APS 111*"), APRA requires that an ADI maintains a certain amount of regulatory capital. An ADI's regulatory capital is assessed by APRA in two tiers: (1) Tier 1 Capital (going concern capital), which comprises an ADI's Common Equity Tier 1 Capital and Additional Tier 1 Capital; and (2) Tier 2 Capital (gone concern capital), in each case, less any prescribed regulatory adjustments (where applicable). Common Equity Tier 1 Capital comprises the highest quality components of capital that: (i) provide a permanent and unrestricted commitment of funds; (ii) are freely available to absorb losses; (iii) do not impose any unavoidable servicing charge against earnings; and (iv) rank behind the claims of depositors and other creditors in the event of a winding-up of the ADI. Additional Tier 1 Capital comprises high quality components of capital that meet the requirements described in (i), (ii) and (iv) above, and also provide for fully discretionary capital distributions. Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses. An ADI's regulatory capital base (the numerator of the capital ratio) is defined for the purposes of APS 111 as the sum of eligible Tier 1 Capital and Tier 2 Capital ("*total capital*").

Under its Prudential Standard *APS 110 – Capital Adequacy* ("*APS 110*"), APRA requires all ADIs to, at all times, maintain the following minimum prudential capital ratios (as measured against total risk-weighted assets): (i) a Common Equity Tier 1 Capital ratio of 4.5%; (ii) a Tier 1 Capital ratio of 6.0%; and (iii) a Total Capital (being the sum of all Tier 1 Capital and Tier 2 Capital) ratio of 8.0%. APRA may also require an ADI to hold prudential capital above these levels if it so determines and may change these levels at any time. As at March 31, 2016, MBL and MGL are fully compliant with all prudential capital requirements that are applicable to them.

Pursuant to APS 110, APRA also requires ADIs to, from January 1, 2016, hold a capital conservation buffer above the prudential capital requirement for the Common Equity Tier 1 Capital. The capital conservation buffer is 2.5% of the ADI's total risk-weighted assets unless determined otherwise by APRA. APS 110 provides that the Common Equity Tier 1 Capital plus the capital conservation determined by APRA should be no less than 7.0% of the ADI's total risk-weighted assets. It is not possible to predict with absolute certainty whether MBL will meet this requirement at all times. As at March 31, 2016, the Common Equity Tier 1 Capital ratio for MBL Group (on a Level 2 basis) was 10.7%, which is in compliance with the levels required by APS 110.

From January 1, 2016, APRA may, by notice in writing to all ADIs, require them to hold additional Common Equity Tier 1 Capital of between zero and 2.5% of total risk-weighted assets, as a countercyclical capital buffer. This rate may, by notice in writing to all ADIs, be adjusted by APRA over time in response to changes in market conditions. On December 17, 2015, APRA announced that the countercyclical capital buffer applying from January 1, 2016 to Australian exposures of ADIs will be set at zero. It is currently not possible to predict whether APRA will require ADIs to hold a countercyclical capital buffer but any such decision of APRA to do so must be notified by APRA to all ADIs up to 12 months prior to coming into effect.

APRA has stipulated a capital adequacy framework that applies to MBL as an ADI and MGL as a NOHC. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Pillar 3 Disclosure Documents setting out the qualitative and quantitative disclosures of risk management practices and capital adequacy required to be published by MBL Group in accordance with APRA's Prudential Standard *APS 330 - Capital Adequacy: Public Disclosure of Prudential Information* ("APS 330") are posted on MBL's U.S. Investors' Website. Measurement of capital adequacy and MBL's economic capital model is more fully described in Section 4 of the MBL Pillar 3 Disclosure Document for the year ended March 31, 2016, Section 4 of the MBL Pillar 3 Disclosure Document for the half year ended September 30, 2015 and Section 4 of the MBL Pillar 3 Disclosure Document dated March 31, 2015, each posted on MBL's U.S. Investor's Website. APRA has advised that it will monitor the overall MGL Group and may increase the prudential requirements it applies to MBL if the activities of MGL Group place financial strain on MBL.

#### *APRA's prudential supervision – Liquidity*

Under APRA's Prudential Standard *APS 210: Liquidity* ("APS 210"), APRA requires ADIs to at all times maintain sufficient liquidity to meet their obligations as they fall due and hold a minimum level of high-quality liquidity assets ("HQLA") to survive a liquidity stress. APRA also requires ADIs to have a robust liquidity risk management framework to manage their liquidity risk. The ADI's liquidity risk management framework must include, at a minimum: a statement of the ADI's liquidity risk tolerance, a liquidity management strategy, policy statement and funding strategy which, in each case, must be approved by the ADI's board of directors. It must also include a system for identifying, measuring, monitoring and controlling its liquidity risk in accordance with its liquidity risk tolerance and a formal contingency plan for dealing with a liquidity crisis.

MGL models twelve month liquidity stress scenarios for the MGL Group, the MBL Group and the Non-Banking Group to ensure that sufficient liquidity is available in each part of its business. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity" for further information on our liquidity policies and principles.

APRA's final prudential standards and practice guides implementing the global liquidity standards issued by the Basel Committee in the Basel III framework came into effect on January 1, 2014 (and were last amended in November 2014). In line with the liquidity standards contained within the Basel III framework, APRA introduced the Liquidity Coverage Ratio ("LCR") as part of its liquidity framework, which became a minimum prudential requirement for ADIs on January 1, 2015.

The LCR requires HQLA to be held to cover net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days and applies specifically to the MBL Group. In its implementation of the LCR, APRA adopted the Basel III rules text in full, with the exception of certain items where APRA has made use of the national discretion allowed by the rules or where APRA has departed from the rules text to reflect circumstances particular to Australia. Items under the first category include not expanding the definition of HQLA to include any 'level 2' HQLA, an additional cash outflow rate for high run off less stable retail deposits, certain contingent funding obligations and the method of calculating collateral flows related to the valuation of derivatives. Items under the second category include the treatment of self-managed superannuation fund deposits and recognition of head office liquidity to support Australian branches of foreign banks.

As a consequence of the Basel III definition of HQLA, the only assets that qualify as HQLA for the purposes of satisfying Australian dollar LCR requirements are cash, balances held with the RBA and Australian Government and semi-government securities. APRA has acknowledged that the supply of Australian Commonwealth Government and semi-government securities in Australia is relatively limited. In response, APRA and the RBA have agreed to allow ADIs, if approved by APRA, to establish a committed secured liquidity facility ("CLF") with the RBA (which is an Alternative Liquidity Approach (ALA) (defined in the Basel III liquidity rules) that expands the regulatory definition of HQLA in jurisdictions where there is a structural shortfall of otherwise Basel III-qualifying HQLA, as is the case in Australia). The commitment of the RBA under the CLF to each relevant participating ADI ("CLF participant") has been available since January 1, 2015. APRA has approved MBL's use of a CLF with the RBA to use in its LCR calculations.

In September, 2014, the RBA released legal documentation for the CLF, including the terms and conditions of the CLF (“*CLF Terms and Conditions*”). Under the CLF Terms and Conditions, if there is any failure of, or breach by, the RBA in respect of a CLF, the liability of the RBA to the relevant CLF participant in respect of claims the CLF is expressly limited and, notwithstanding such limitations, is capped at A\$50 million in aggregate. Amounts owing to the RBA in respect of a CLF by the relevant CLF participant (which may include, without limitation, fees due but unpaid and amounts owing under an indemnity provided by the CLF participant under the CLF Terms and Conditions) may, in a winding-up of the CLF Participant, be mandatorily preferred over other debts of the CLF participant (including, pursuant to section 13A(3)(d) of the Australian Banking Act and section 86 of the Reserve Bank Act 1959 of Australia).

In addition to implementing the LCR, APRA announced that it plans to introduce the Net Stable Funding Ratio (“*NSFR*”) into its liquidity framework. The NSFR is a 12 month structural funding metric, requiring that ‘available stable funding’ is sufficient to cover ‘required stable funding’, where ‘stable’ funding has an actual or assumed maturity of greater than 12 months. On March 31, 2016, APRA released for consultation a discussion paper outlining its proposed implementation of the NSFR. It proposed that the new standard would come into effect on January 1, 2018, consistent with the international timetable agreed by the Basel Committee. As with the earlier introduction of LCR, APRA is proposing that the NSFR will only be applied to larger, more complex ADIs. In addition, APRA has also announced its proposal to introduce a specific required stable funding factor for assets held by ADIs as collateral for their CLF. This will approximate the factor that would apply if adequate supplies of HQLA were available in Australia. MBL currently expects that it will meet the requirements of the NSFR. However, final details of the NSFR have not yet been implemented by APRA under its prudential standards.

#### *APRA’s prudential supervision – Counterparty credit risk*

APRA’s prudential standards implementing the Basel III reforms to the capital framework for counterparty credit risk and other credit exposures came into effect on January 1, 2013. Under its prudential standard, APRA extended its existing capital framework for counterparty credit risk in bilateral transactions to be the sum of the existing counterparty credit default component that applies under its existing prudential standards and a risk capital Credit Value Adjustment (“*CVA*”) risk capital charge introduced as part of the Basel III reforms. The CVA risk capital charge is intended to cover the risk of mark-to-market losses on the expected counterparty credit risk arising from bilateral OTC derivatives. In January 2013, APRA also adopted Basel III reforms on capital charges for exposure to central counterparties arising from over the counter derivatives, exchange traded derivatives and securities financing transactions. These prudential standards require MBL to hold more capital for its counterparty credit risk exposures and other credit exposures.

#### *APRA’s prudential supervision – Capital requirements for the supervision of conglomerates*

On August 15, 2014, APRA issued its planned framework for the supervision of conglomerate groups (“*Level 3 groups*”), which includes the MGL Group.

The proposed overarching requirements of the framework are as follows: (i) a Level 3 group must have a robust governance framework that is applied appropriately throughout the group; (ii) the intra-group exposures and external aggregate exposures of a Level 3 group must be transparent and prudently managed; (iii) a Level 3 group must have an effective group-wide risk management framework in place; and (iv) a Level 3 group must have sufficient capital to support the risks of the entire group, including material risks that arise from non-APRA-regulated activities.

Initially, APRA had deferred its final implementation of the capital requirements component of the framework until the Australian Government’s response to the recommendations of the Financial System Inquiry (“*FSI*”) had been announced. (see further “— Other Australian regulators — Financial System Inquiry” below).

On March 29, 2016, APRA announced an extension to the date for the final implementation of this component of the framework until a number of other domestic and international policy initiatives are further progressed. These policy initiatives include:



- APRA’s implementation of the FSI recommendation on unquestionably strong capital ratios for ADIs (FSI recommendation 1);
- consideration of proposals in relation to loss absorption and recapitalisation capacity (FSI recommendation 3); and
- proposed legislative changes to strengthen APRA’s crisis management powers (FSI recommendation 5).

APRA foresees that, taken together, these initiatives will influence its final views on the appropriate requirements with respect to the strength, resilience, recovery and resolution capacity of conglomerate groups.

The impact of this framework is subject to consultation with APRA, with our current assessment being that MBL has sufficient capital to meet the minimum APRA capital requirements for Level 3 groups. However, it is not possible to predict how APRA will implement, or how the response to the FSI recommendations will affect, these rules and, in particular, how these matters will impact the capital structure or businesses of the MBL Group.

*APRA’s prudential supervision – Loss absorbency at the point of non-viability*

On January 13, 2011, the Basel Committee issued the minimum requirements to ensure loss absorbency at the point of non-viability. These requirements enhance the entry criteria of regulatory capital to ensure that all regulatory capital instruments issued by banks are capable of absorbing losses in the event that a bank is unable to support itself in the private market and are in addition to the criteria detailed in the text of the Basel III framework that were published in December 2010.

Under the requirements, all non-common Tier 1 and Tier 2 instruments issued by a bank on or after January 1, 2013 must have a provision which allows a relevant authority to require the debt to be written off or converted into common equity upon the earlier of such authority determining that (1) a write-off is necessary; and (2) rescue funds from the public sector (or equivalent) are required, for the bank to continue to be viable. Instruments issued prior to January 1, 2013 that do not meet these criteria but otherwise met all of the criteria for Additional Tier 1 or Tier 2 Capital as set out in the text of the Basel III framework will be considered as an instrument that no longer qualifies as such and phased out from January 1, 2013.

APRA’s implementation of these minimum requirements were included in its revised prudential standards relating to capital adequacy which came into effect on January 1, 2013. All additional Tier 1 and Tier 2 instruments currently issued by MBL meet the requirements of the revised prudential standard requirements for loss absorbency at the point of non-viability or are eligible for transitional relief that is available for qualifying instruments on a progressively decreasing basis from January 1, 2013 until January 1, 2022.

*Crisis management*

On September 28, 2012, the Australian Government released a consultation paper titled “*Strengthening APRA’s Crisis Management Powers*” seeking comments on a range of options to enhance Australia’s financial sector, particularly prudential regulation. The options canvassed in the paper aim to strengthen APRA’s crisis management powers in relation to NOHCs, ADIs, superannuation entities and general and life insurers. Implementation of these options is intended to bring Australia’s regulatory framework more closely into line with the G20 endorsed international standard for crisis management arrangements published by the Financial Stability Board in its paper “*Key Attributes of Effective Resolution Regimes for Financial Institutions*” dated October 2011. Strengthening crisis management powers was also one of the recommendations contained in the final FSI report published on December 7, 2014 (see “— Other Australian regulators — Financial System Inquiry” below). If implemented, the key implications for MBL and MGL are likely to be an increase in APRA’s powers to intervene in the affairs of MBL and MGL during periods of stress.

## ***RBA***

In exercising its powers, APRA works closely with the RBA. The RBA is Australia's central bank and an active participant in the financial markets. It also manages Australia's foreign reserves, issues Australian currency notes, serves as banker to the Australian Government and, through the Payment Systems Board, supervises the payments system.

## ***ASIC***

ASIC is Australia's corporate, markets and financial services regulator, which regulates Australian companies, financial markets, financial services organizations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit.

ASIC regulates each of the entities we operate in Australia as the corporate regulator and is responsible for enforcing appropriate standards of corporate governance and conduct by directors and officers. A number of MBL Group entities hold Australian financial services ("AFS") licenses. ASIC licenses and monitors AFS licensees and requires AFS licensees to ensure the financial services covered by their license are provided efficiently, honestly and fairly. A number of MBL Group entities also hold Australian Credit Licenses ("ACL"). ASIC regulates ACL holders as the consumer credit regulator, licensing and regulating those entities to ensure they meet standards set out in the National Consumer Credit Protection Act 2009 of Australia.

ASIC is Australia's market regulator and is responsible for the supervision of trading on Australia's domestic licensed equity, derivatives and future markets, including trading by MBL and other ASX and ASX24 market participants in the MBL Group.

## ***ASX24***

The ASX24 market provides exchange traded and over-the-counter services and regulates the cash and derivative trades that we execute through the ASX24 as a market participant in the ASX24. This business is conducted primarily within MBL Group.

As a licensed market operator, MBL Group is subject to the operating rules of ASX24 which contain comprehensive provisions for preventing conflicts and enforcing compliance with the operating rules. The rules cover all aspects of trading and of clearing and settling, including monitoring market conduct, disciplining of participants and suspension or termination of participation rights and market access.

## ***ASX***

ASX is Australia's primary securities market. The MIS, MCN2 and MGL's ordinary shares are listed on ASX. MBL and MGL each have a contractual obligation to comply with ASX's listing rules, which have the statutory backing of the Australian Corporations Act. The ASX listing rules govern requirements for listing on ASX and include provisions in relation to issues of securities, disclosure to the market, executive remuneration and related-party transactions. ASX and ASIC oversee our compliance with ASX's listing rules, including any funds the MGL Group manages that are listed on the ASX.

## ***ACCC***

The ACCC is Australia's competition regulator. Its key responsibilities are to ensure that corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third-party access to facilities of national significance. The ACCC's consumer protection activities complement those of Australia state and territory consumer affairs agencies that administer the unfair trading legislation of those jurisdictions.

## **AUSTRAC**

AUSTRAC is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. It works collaboratively with Australian industries and businesses (including certain entities of MBL Group) in their compliance with anti-money laundering and counter-terrorism financing legislation. As Australia's financial intelligence unit, AUSTRAC contributes to investigative and law enforcement work to combat financial crime and prosecute criminals in Australia and overseas.

The AML-CTF Act places obligations on providers of financial services and gaming services, and on bullion dealers. The AML-CTF Act affects entities who offer specific services which may be exploited to launder money or finance terrorism, for example, those relating to electronic fund transfers, designated remittance arrangements and correspondent banking relationships. The AML-CTF Act also has broad extra territorial application to overseas entities of Australian companies.

A number of entities in MBL Group are considered to be "*reporting entities*" for the purposes of the AML-CTF Act and are required to undertake certain obligations, including "*know your customer*" obligations, onboarding, identification and verification obligations, enhanced customer due diligence, establishing an AML-CTF program to identify, mitigate and manage the risk of money laundering and terrorism financing, enhanced record-keeping and reporting on suspicious matters, cash transactions above a set threshold and international funds transfer instructions to and from Australia.

MBL Group and MGL Group continue to monitor, manage and implement changes as a result of AML-CTF legislation.

### ***Other Australian regulators***

In addition to the foregoing regulators, MBL Group and MGL Group and the businesses and funds they manage are subject to supervision by various other regulators in Australia, including the Essential Services Commission, Economic Regulation Authority and the Department of Energy and Water in connection with activities and the management of funds in the utilities and energy sectors.

### ***Financial System Inquiry***

Over the course of 2014, the Australian Federal Government undertook a review of the Australian financial system, called the FSI. The FSI released its final report on December 7, 2014, which included 44 recommendations. On October 20, 2015, the Australian Federal Treasury responded to each of the recommendations made by the FSI, endorsing the majority of them, referring certain matters to key regulators and proposing a timetable for further public and industry consultation and, in certain cases, for implementation of reform measures. It is not currently possible to have any further certainty on the impact on the capital structure or businesses of MBL from any future policy changes resulting from the regulatory and supervisory responses to the FSI or broader international regulatory developments. See "Risk Factors – Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate".

### ***Central clearing of OTC derivatives***

In April 2014, ASIC, the RBA and APRA recommended that the Australian Government consider a central clearing mandate for over-the-counter interest rate derivatives denominated in Australian dollars. This followed their recommendation in July 2013 for the Australian Government to consider a central clearing mandate for interest rate derivatives denominated in United States Dollars, Euro, Pounds Sterling or Japanese Yen. In September 2015, the Australian Government implemented the mandate in Australia for the central clearing of interest rate derivatives denominated in Australian Dollars, United States Dollars, Euros, Pounds Stirling, Japanese Yen between internationally active dealers. In December 2015, the ASIC Derivative Transaction Rules (Clearing) 2015 were

released. The rules are applicable to Australian and foreign financial institutions that meet the clearing threshold specified in the rules and commenced in April 2016.

#### *Sound residential mortgage lending practices*

On July 20, 2015, APRA announced an increase in the amount of capital required for Australian residential mortgage exposures by certain ADIs accredited to use the IRB approach to credit risk. For those ADIs using the IRB approach, the average risk weight on Australian residential mortgage exposures will increase from approximately 16% to at least 25%. The affected ADIs are Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, MBL, National Australia Bank Limited and Westpac Banking Corporation.

### **International**

Our businesses and the funds we manage outside of Australia are subject to various regulatory regimes.

#### *United States*

As a result of the global economic crisis, the United States government has enacted legislation, and the applicable regulatory authorities have adopted or proposed regulations that make significant changes in the regulation of the financial services industry including reforming the financial supervisory and regulatory framework in the United States, which could have a material impact on financial institutions and their activities, including the activities of MBL and its subsidiaries in the United States. Certain aspects of the reform process have been implemented, with the balance being implemented over a number of years. The final effects are not yet certain. See “Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate” above for further information.

MBL Group is currently subject to regulation in the United States as a financial intermediary, which is described below.

#### *Banking and derivatives regulations*

In the United States, MBL operates solely through representative offices, which by law may only perform representational and administrative functions and therefore cannot engage in business or handle customer funds. These offices are limited to soliciting business on behalf of MBL, which must then be approved and booked offshore, and performing administrative tasks as directed by MBL. Our representative offices are licensed by individual states, in our case, the states of New York, Texas and Illinois, and are subject to periodic examination by the applicable state licensing authority and the Federal Reserve. These examinations primarily focus on whether the offices are compliant with the limits of representative office activities and on key areas of regulatory concern, such as anti-money laundering compliance.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “*Dodd-Frank Act*”). Many of the provisions of the Dodd-Frank Act require rulemaking by the applicable U.S. regulatory agency, such as the Federal Reserve Board (“*FRB*”), the SEC and the Commodity Futures Trading Commission (“*CFTC*”), before the related provisions of the Dodd-Frank Act become effective. Many of the CFTC’s rules have been adopted and have become effective. The Dodd-Frank Act has resulted in, and will continue to result in, significant changes in the regulation of the U.S. financial services industry, including reforming the financial supervisory and regulatory framework in the United States. MBL’s businesses will be affected by a variety of new regulations under the Dodd-Frank Act including, but not limited to: (i) greater regulation of over-the-counter derivatives, including stricter capital and margin requirements, the centralized execution and clearing of standardized over-the-counter derivatives, and registration and heightened supervision of all over-the-counter swap dealers and major swap participants; (ii) more stringent and extensive position limits on derivatives on physical commodities; and (iii) increased regulation of investment advisers. In addition, if MGL is determined by U.S. regulators to be a “*systemically important*” nonbank financial company, U.S. regulators may have increased

regulatory authority over MGL and its subsidiaries, including MBL, and may impose stricter capital, leverage and risk management requirements. The Dodd-Frank Act will increase compliance and execution costs for derivative trading in the United States and have an impact on certain MBL businesses, such as on its U.S. derivatives business. For instance, two MGL affiliates have registered as swap dealers.

On July 26, 2013, the CFTC issued Cross-Border Guidance addressing the extent to which, and the manner in which, its rules governing swap dealers would be applied to non-U.S. swap dealers, such as MBL, in connection with their transactions with non-U.S. counterparties. Among other things, the Cross-Border Guidance provided a framework for the CFTC to grant “*substituted compliance*” to swap dealers located in non-U.S. jurisdictions, pursuant to which such swap dealers would be permitted to comply with local law and regulations when transacting with non-U.S. counterparties, in lieu of compliance with CFTC rules. On December 20, 2013, the CFTC, pursuant to its previously issued Cross-Border Guidance, approved a series of substituted compliance determinations covering certain swap entity-level and transaction-level requirements in six jurisdictions, including entity-level requirements under Australian law, which permits non-U.S. swap dealers, such as MBL, to rely on substituted compliance with approved local laws and regulations when dealing with non-U.S. counterparties, in place of certain of the CFTC’s rules. Therefore, MBL is able to comply only with Australian regulatory requirements in certain respects in connection with its swap dealing business with non-U.S. counterparties. It is possible that further cross-border relief will be granted in the future. However, MBL remains subject to many of the CFTC’s requirements – and to all such requirements when transacting with U.S. counterparties – and the other MGL affiliate that is registered as a swap dealer is fully subject to CFTC rules as well.

On November 14, 2013, the CFTC issued a staff advisory (the “*Advisory*”) relating to the cross-border application of transaction-level swap requirements. In the advisory, the CFTC took the view that a non-U.S. swap dealer registered with the CFTC (whether or not it is an affiliate of a U.S. person) must comply with transaction-level requirements under the Dodd-Frank Act when entering into a swap with a non-U.S. person if the swap is arranged, negotiated or executed by personnel of the non-U.S. swap dealer located in the United States. However, through a series of no-action letters, the CFTC has delayed the effectiveness of the Advisory until September 30, 2016. Further actions by the CFTC may affect swap transactions of certain members of the MBL Group.

Many of the rules under the Dodd-Frank Act have already been issued and made effective. However, some of these rules are yet to take effect and others are yet to be finalized. It is not possible at this point in time to determine definitively the full extent of the impact of the Dodd-Frank Act because the rulemaking process is ongoing and the process of implementation is still expected to continue for several years. Nevertheless, it is clear that the regulatory changes will increase costs, which could cause some entities to reduce or eliminate their trading activity, thereby also potentially reducing liquidity and increasing volatility.

The CFTC and the Prudential Regulators finalized their respective regulations on margin for uncleared swaps in late 2015 and early 2016. As a non-U.S. swap dealer registered with the CFTC, MBL is subject to new initial and variation margin rules which became effective April 1, 2016. The phase-in period for compliance begins in September 2016 with additional staged compliance dates until September 2020, including a general compliance date of March 1, 2017, for the variation margin requirements. The CFTC is expected to finalize its proposed regulations on position limits in 2016, although the effective date of the regulations is unclear. The imposition of these requirements may limit trading activities by MBL.

#### *Anti-money laundering regulations*

The MBL representative offices as well as MBL Group’s U.S. broker-dealer subsidiaries and mutual funds managed or sponsored by MBL Group’s subsidiaries are subject to anti-money laundering laws and regulations, including regulations issued by the U.S. Treasury Department to implement various anti-money laundering requirements of the Bank Secrecy Act (the “*Bank Secrecy Act*”) and Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “*USA PATRIOT Act*”).

The Bank Secrecy Act, as amended by the USA PATRIOT Act, requires U.S. representative offices of foreign banks and U.S. broker-dealers and mutual funds to establish and maintain written anti-money laundering compliance programs that include the following components: (i) a system of internal controls to assure ongoing compliance with

applicable anti-money laundering laws and regulations; (ii) independent testing of compliance by the institution's personnel or by a qualified outside party; (iii) the designation of an individual or individuals responsible for coordinating and monitoring day-to-day compliance; and (iv) training for appropriate personnel. The compliance program must be approved by the board of directors, board of trustees or senior management depending on the institution. United States representative offices of foreign banks and U.S. broker-dealers and mutual funds are also required to establish and maintain a customer identification program and, as necessary, to file suspicious activity reports with appropriate federal law enforcement agencies and the U.S. Treasury Department.

The MBL representative offices and our other operations within the United States must also comply with the regulations and economic sanctions programs administered by OFAC, which enforces economic sanctions against targeted foreign countries, individuals and entities.

The MBL representative offices and U.S. broker-dealer subsidiaries and other subsidiaries in the United States have adopted written anti-money laundering compliance programs designed to comply with the Bank Secrecy Act, as amended by the USA PATRIOT Act, and have implemented procedures to comply with OFAC.

#### *Securities and commodities regulations*

In the United States, we are regulated by the U.S. Securities and Exchange Commission ("*SEC*") and by the Financial Industry Regulatory Authority ("*FINRA*") with respect to certain securities and corporate finance related activities conducted through broker-dealers, or through investment advisors or investment companies registered under the U.S. Investment Advisers Act of 1940, as amended, or the U.S. Investment Company Act of 1940, as amended (the "*ICA*"). We will be subject to greater oversight and regulation by the SEC and FINRA as our business grows in the United States.

In addition, we are regulated by the Commodity Futures Trading Commission ("*CFTC*") and the CME Group with respect to the trading of futures and commodity options for customers and clearing activities. The CFTC continues to issue final and proposed regulations, statements of guidance and no-action letters that may affect certain members of the MGL Group, including MBL. The Federal Energy Regulatory Commission ("*FERC*") also regulates wholesale natural gas and electricity markets in which we operate. As we continue to expand our U.S. energy trading business, our compliance with energy trading regulations will become increasingly important.

#### *Other regulations*

Other regulators that impact the funds and companies we manage include, but are not limited to, the Federal Communications Commission with respect to certain media-related investments, and various other applicable federal, state and local agencies. In addition, our entry into the physical commodities trading business has subjected us to further U.S. regulations, including, but not limited to, federal, state and local environmental laws.

#### ***United Kingdom***

The FCA and PRA are responsible for the regulation of financial business in the United Kingdom, including banking, investment business, consumer credit and insurance. Deposit-taking institutions, insurers and significant investment firms are dual-regulated, with the PRA responsible for the authorization, prudential regulation and day-to-day supervision of such firms, and the FCA responsible for regulating conduct of business requirements.

MBL operates a branch, MBL LB, and a subsidiary, Macquarie Bank International Ltd ("*MBIL*"), in the United Kingdom. APRA remains the lead prudential regulator for MBL LB, with regulatory oversight by the FCA and PRA in their handbooks of rules and guidance in the United Kingdom. MBIL, a United Kingdom incorporated subsidiary is authorized and regulated by the FCA and PRA as a bank.

As regulated entities, MBIL and MBL LB are required to comply with U.K. legislation and the rules set forth by the FCA and PRA (collectively, the "*Rules*"), as applicable. The Rules include requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, conduct of business and the treatment of customers, the application of which varies depending on whether it is a subsidiary or a branch of MBL. MGL also has two

subsidiaries in the United Kingdom, Macquarie Infrastructure and Real Assets (Europe) Limited (“*MIRAEL*”) and Macquarie Capital (Europe) Limited (“*MCEL*”), authorized and regulated solely by the FCA. *MIRAEL* is authorized as an alternative investment fund manager (“*AIFM*”) pursuant to the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773), which implements the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) in the United Kingdom, and is able to manage qualifying alternative investment funds and market such funds to professional investors in the United Kingdom. *MCEL* is authorized and regulated by the FCA as a full scope investment firm.

In many cases, the Rules reflect the requirements set out in European Union Regulations and implement applicable European Union Directives (such as the Capital Requirements Regulation and Capital Requirements Directive IV, which relate to regulatory capital requirements for banks and investment firms and came into force on January 1, 2014 and the Markets in Financial Instruments Directive, which relates to the carrying on of investment business). Under the Rules, regulated banks and certain investment firms, including MBIL, MCEL and MBL LB, are required to have an adequate liquidity contingency plan in place to deal with a liquidity crisis. A liquidity contingency plan is maintained for MBL and this covers the requirements for MBIL, MCEL and MBL LB. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition — Liquidity — Liquidity contingency plan” for further information.

On April 1, 2014, responsibility for the regulation of consumer credit business transferred from the Office of Fair Trading (“*OFT*”) to the FCA. To ensure a smooth transition to the FCA’s consumer credit regime, an interim permission regime was introduced. Macquarie Asset Leasing (UK) Ltd (“*MALL*”), an incorporated subsidiary of MBL in the United Kingdom, holds interim permission for certain consumer credit activities. A full license will be required to continue our consumer credit activities.

The new FCA consumer credit regime, which came into force on April 1, 2014, is contained in the Consumer Credit sourcebook (“*CONC*”) in the Rules. There are few significant changes to the regulatory requirements that consumer credit firms are required to comply with as a result of the transition to the FCA. There are some instances of new guidance and/or new rules created by the FCA including instances where the requirements in *CONC* go further than previous guidance issued by the *OFT*. There are also some areas where previous industry guidance has become regulatory rules in *CONC*.

The PRA and the FCA have announced major changes to be made to the way individuals working for PRA supervised firms, including MBIL and MBL LB, are assessed and held accountable for the roles they perform. The changes are in response to perceived shortcomings in behavior and culture within firms following the financial crisis and recent conduct scandals. The changes are significant and introduce (i) a new Senior Managers Regime which is designed to clarify the lines of responsibility at the top of banks, enhance the regulator’s ability to hold senior individuals accountable and require banks to regularly evaluate their senior managers for fitness and propriety; (ii) a Certification Regime requiring firms to assess the fitness and propriety of certain employees who could pose a risk of significant harm to the firm or any of its customers; and (iii) a new set of “*conduct*” rules setting out high level principles and standards of behavior that will apply to all bank employees except those in ancillary service functions such as IT and catering. The new Senior Managers regime took effect from March 2016.

Effective January 1, 2011, the United Kingdom introduced a bank levy which provides for an annual charge on certain equity and liabilities of banks and certain other financial institutions. In respect of foreign banking groups with banking operations in the United Kingdom, the bank levy is calculated, broadly speaking, by reference to the aggregated equity and liabilities of the group’s relevant UK sub-groups, UK subsidiaries, non-UK resident subsidiaries with a UK parent and UK branches (in each case as shown in appropriate balance sheets). The bank levy is charged at different rates for short-term chargeable liabilities on the one hand and long-term chargeable equity and liabilities on the other hand. From January 1, 2016, the applicable bank levy rates are 0.18% for short-term chargeable liabilities and 0.09% for long-term chargeable equity and liabilities. The bank levy is not applicable to the first £20 billion of chargeable equity and liabilities. Based on the March 31, 2016 balance sheet position, it is not anticipated that MBL Group will be impacted by the bank levy on the basis that its chargeable equity and liabilities are expected to be below £20 billion for each full period of account. MBL Group will continue to monitor its position on a regular basis.

The UK Government has announced its intention to implement a gradual reduction in the bank levy rates ultimately reaching 0.10% for short term chargeable liabilities and 0.05% for long term chargeable equity and liabilities by January 1, 2021. The gradual reduction in UK bank levy rates is combined with the introduction of a corporation tax surcharge (at 8%) on bank profits which became effective January 1, 2016.

Other United Kingdom regulators that impact our business include the Gas and Electricity Markets Authority (“Ofgem”), which regulates the United Kingdom gas and electricity industry. The Information Commissioner’s Office is responsible for regulating compliance with legislation in the United Kingdom governing data protection, electronic communications, freedom of information and environmental information.

## **European Union**

### *Financial Transaction Tax*

On February 14, 2013, the European Commission published a proposal for a Council Directive (the “*Draft Directive*”) for a common financial transaction tax (the “*FTT*”) in eleven Member States (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Spain, Slovakia and Slovenia). However, Estonia has since stated it will not participate.

Pursuant to the Draft Directive, the FTT would be payable on “*financial transactions*” within its scope. Those transactions would broadly include derivatives and the purchase and sale of financial assets (bonds, equities, repos and stock lending) as well as material modifications of such transactions. It would exclude spot transactions in currency, commodities, etc., and insurance contracts, loan originations, credit cards, cash payments and the issuance of debt and equity instruments.

Under the Draft Directive the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would be payable on a financial transaction where at least one party is a financial institution (acting as agent or principal) and at least one party is established in a participating Member State. A party may be, or be deemed to be, “*established*” in a participating Member State in a broad range of circumstances, including where it is (a) a party which has a branch in a participating Member State, in respect of a financial transaction being carried out by that branch; (b) a financial institution that is a party (whether as agent or principal) to, or acting in the name of a party to, a financial transaction with a party deemed to be established in a participating Member State; (c) a financial institution that is a party (whether as agent or principal) to, or acting in the name of a party to, a financial transaction in relevant financial instruments issued in a participating Member State; or (d) a natural or legal person who is a party to a financial transaction in relevant financial instruments issued in a participating Member State.

Implementation of the Draft Directive in its present form in any of the participating Member States could result in increased transaction costs for:

- (a) MBL in relation to certain transactions entered into by it (as principal or agent) in certain circumstances; and
- (b) investors in the secondary market who in certain circumstances sell or purchase notes issued by MBL.

However, the Draft Directive remains subject to negotiation between participating Member States: the scope, legality and coming into force of any such tax remains uncertain. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw. In December 2015 a joint statement was issued by several participating Member States, indicating an intention to make decisions on the remaining open issues by the end of June 2016.

### **Other regulators**

Outside Australia, the United States and the United Kingdom, MBL has branches in the Dubai International Finance Centre, Hong Kong, Seoul and Singapore that are regulated by the Dubai Financial Services Authority, the



Hong Kong Monetary Authority, the Financial Supervisory Service and the Monetary Authority of Singapore, respectively. MBL also has a representative office in Auckland, regulated by the Reserve Bank of New Zealand, and in Switzerland, regulated by the Swiss Financial Markets Supervisory Authority, which gives MBL limited authorization to conduct marketing of its products and services to institutions (and, in Switzerland, high net worth individuals), subject to local license limitations. Bank regulation varies from country to country, but generally is designed to protect depositors and the banking system as a whole, not holders of a bank's securities. Bank regulations may cover areas such as capital adequacy, minimum levels of liquidity, and the conduct and marketing of banking services.

Outside Australia, the United States and the United Kingdom, some of the other key financial regulators of our businesses include but are not limited to:

- the Securities and Futures Commission of Hong Kong, the Hong Kong Monetary Authority and the Hong Kong Exchanges and Clearing Limited;
- the Investment Industry Regulation Organization of Canada, the TMX and the various provincial and territorial securities regulatory authorities in Canada;
- the Financial Supervisory Service of Korea, and the Korea Exchange;
- the Monetary Authority of Singapore and the Singapore Exchange Securities Trading Limited;
- the Financial Services Agency of Japan and the Tokyo Stock Exchange;
- the Financial Services Board of South Africa; and
- the Securities and Exchange Board of India, the Bombay Stock Exchange and the National Stock Exchange of India.

Financial regulation varies from country to country and may include the regulation of securities offerings, mergers and acquisitions activity, commodities and futures activities, anti-trust issues, investment advice, trading and brokerage, sales practices, and the offering of investment products and services.

In addition to the foregoing, certain businesses and assets owned or managed by MBL Group in international jurisdictions are subject to additional laws, regulations and oversight that are specific to the industries applicable to those businesses and assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

### Presentation

For the year ended March 31, 2016, MBL Group was divided into the following operating groups for internal reporting and risk management purposes: Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions), Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities), Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division), Banking & Financial Services and Corporate & Asset Finance.

Investors should note that on April 15, 2015, the economic risks and rewards from, and control of, the Macquarie Investment Management (“MIM”) division of the Macquarie Asset Management operating group transferred at fair value to Macquarie Financial Holdings Limited (“MFHL”) and its subsidiaries in the Non-Banking Group. Accordingly, the MIM business has been classified as discontinued operations in our 2016 and 2015 audited financial statements, including the restated figures for the year ended March 31, 2014 contained therein. See Note 43 to our 2016 annual financial statements. Note that all other figures in this Report, including in the Macquarie Asset Management and Corporate segments, exclude numbers attributable to MIM or reflect it as a discontinued operation, unless otherwise indicated.

Investors should also note that in November 2015, MGL acquired the Esanda Portfolio from ANZ for A\$8.2 billion. The acquisition was funded from existing funding sources combined with third-party financing arrangements. The Esanda Portfolio became part of Macquarie Leasing, the automotive and equipment finance division of the Corporate & Asset Finance Group, which is part of the Banking Group.

We report certain items in the Corporate segment, which is not considered an operating group. This 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 earnings from the net impact of managing liquidity for MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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. The items reported in the Corporate segment do not form part of the total profit contribution provided by our operating groups. The total contribution to profit by operating groups plus the contribution to profit included in the Corporate segment equate to our total profit attributable to ordinary equity holders.

### Critical accounting policies and significant judgments

Note 1 to our 2016 annual financial statements provides a list of the critical accounting policies and significant judgments. Critical accounting policies and significant judgments for the 2016 fiscal year are otherwise consistent with those in the prior fiscal year.

### Pending accounting standards changes

For a description of standards, interpretations and amendments to Australian Accounting Standards that are not yet effective but could have a significant impact on our accounting policies, see Note 1 to our 2016 annual financial statements.

## **Trading conditions and market update**

### ***Operating conditions and impact on MBL Group***

During the year ended March 31, 2016, trading conditions across MBL Group continued to improve and there was a weakening of the Australian dollar relative to the prior year.

In MBL's annuity style businesses, Macquarie Asset Management also benefited from increased activity in the Macquarie Specialised Investment Solutions ("MSIS") business, while Corporate & Asset Finance's performance was driven by the accretion of interest income on loans acquired at a discount and higher net operating lease income due to the acquisition of an aircraft portfolio. Banking & Financial Services benefited from volume growth in Australian mortgages, business lending, deposits and the wrap platform.

In addition to the overall favorable impact of the depreciation of the Australian dollar on MBL's capital markets-facing businesses, Macquarie Securities also benefited from improved trading opportunities, particularly in China in the first half of the year. Commodities & Financial Markets experienced challenging credit market conditions particularly in the Northern Hemisphere. These were partially offset by a strong contribution from the commodities platform driven by increased client activity resulting from price volatility during the year.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the year ended March 31, 2016, see "— Year ended March 31, 2016 compared to year ended March 31, 2015 — Results overview" below for further information.

**Year ended March 31, 2016 compared to year ended March 31, 2015**

**Results overview**

|   | Year ended     |                | Movement<br>% |
|---|----------------|----------------|---------------|
|   | Mar 16<br>A\$m | Mar 15<br>A\$m |               |
| <b>Financial performance summary</b>  |                |                |               |
| Net interest income .....   | 2,172          | 2,011          | 8             |
| Fee and commission income .....   | 930            | 894            | 4             |
| Net trading income .....  | 2,124          | 1,860          | 14            |
| Share of net (losses)/profits of associates and joint ventures accounted for<br>using the equity method ..... | 22             | (17)           | *             |
| Other operating income and charges .....  | 395            | 547            | (28)          |
| <b>Net operating income</b> .....   | <b>5,643</b>   | <b>5,295</b>   | <b>7</b>      |
| Employment expenses .....   | (1,428)        | (1,466)        | (3)           |
| Brokerage, commission and trading-related expenses .....  | (640)          | (601)          | 6             |
| Occupancy expenses .....  | (112)          | (120)          | (7)           |
| Non-salary technology expenses .....  | (151)          | (110)          | 37            |
| Other operating expenses .....  | (1,576)        | (1,480)        | 6             |
| <b>Total operating expenses</b> .....   | <b>(3,907)</b> | <b>(3,777)</b> | <b>3</b>      |
| Operating profit before income tax .....  | 1,736          | 1,518          | 14            |
| Income tax expense .....  | (681)          | (589)          | 16            |
| Profit from ordinary activities after income tax .....  | 1,055          | 929            | 14            |
| Profit from discontinued operations (net of income tax) .....   | 1,040          | 190            | *             |
| Profit from ordinary activities and discontinued operations after income<br>tax .....                         | 2,095          | 1,119          | 87            |
| Loss/(profit) attributable to non-controlling interests .....   | 11             | (5)            | *             |
| <b>Profit attributable to equity holders of Macquarie Bank Limited</b> .....                                  | <b>2,106</b>   | <b>1,114</b>   | <b>89</b>     |
| Distributions paid or provided for on Macquarie<br>Income Securities .....                                    | (16)           | (18)           | (11)          |
| <b>Profit attributable to ordinary equity holders of<br/>Macquarie Bank Limited</b> .....                     | <b>2,090</b>   | <b>1,096</b>   | <b>91</b>     |
| <b>Profit from continuing operations</b> .....  | <b>1,050</b>   | <b>906</b>     | <b>16</b>     |
| <b>Profit from discontinued operations (net of income tax)</b> .....  | <b>1,040</b>   | <b>190</b>     | <b>*</b>      |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Profit attributable to ordinary equity holders of A\$2,090 million for the year ended March 31, 2016 increased 91% from A\$1,096 million in the prior fiscal year. This result represents profit from continuing operations of A\$1,050 million (compared to A\$906 million in the prior fiscal year) and profit from discontinued operations of A\$1,040 million (compared to A\$190 million in the prior fiscal year).

**Continuing operations**

MBL’s annuity style businesses – Macquarie Asset Management, Corporate & Asset Finance and Banking & Financial Services – continued to perform well, generating a combined net profit contribution for the year ended March 31, 2016 of A\$1,544 million, an increase of 4% on the prior fiscal year with most businesses favorably impacted by the depreciation of the Australian dollar relative to the prior corresponding period. Macquarie Asset Management benefited from increased activity in the MSIS business, while Corporate & Asset Finance’s higher net profit contribution was largely driven by the accretion of interest income on loans acquired at a discount and higher net operating lease income due to the acquisition of an aircraft portfolio. Banking & Financial Services reported an

improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits, and the wrap platform.

MBL's capital markets facing businesses – Macquarie Securities and Commodities & Financial Markets – delivered a combined net profit contribution for the year ended March 31, 2016 of A\$732 million, a decrease of 5% on the prior fiscal year. Both of these businesses were favorably impacted by the depreciation of the Australian dollar relative to the prior fiscal year. Macquarie Securities Group's net profit contribution was up significantly on the prior fiscal year due to increased income from improved trading opportunities, particularly in China in the first half of the year. Commodities & Financial Markets reported a lower net profit contribution driven by a decline in trading activity in the fourth quarter. The prior fiscal year benefited from fee income from the Freeport LNG Terminal transaction while the current year was impacted by challenging credit market conditions particularly in the northern hemisphere. These were partially offset by a strong contribution from the commodities platform driven by increased client activity resulting from price volatility during the year.

Net operating income of A\$5,643 million for the year ended March 31, 2016 increased 7% from A\$5,295 million in the prior fiscal year. Key drivers of the changes from the prior fiscal year were:

- An 11% increase in combined net interest and trading income to A\$4,296 million for the year ended March 31, 2016 from A\$3,871 million in the prior fiscal year. All operating groups contributed to the increase, with key drivers of the result being:
  - improved trading opportunities in Macquarie Securities Group driven by increased market volatility, particularly in China in the first half of the year;
  - the impact of the depreciation of the Australian dollar, growth of the motor vehicle portfolio and the accretion of interest income on loans acquired at a discount in Corporate & Asset Finance;
  - strong volume growth in Australian mortgages, business lending and deposits in Banking & Financial Services; and
  - a strong contribution from the commodities platform in Commodities & Financial Markets with customer flow underpinned by volatility in global commodity prices and strong client flows in foreign exchange and interest rates markets due to ongoing market volatility, partially offset by lower income as a result of challenging market conditions and subdued client risk appetite in secondary markets, which were influenced by a sell-off in United States credit markets.
- A 4% increase in fee and commission income to A\$930 million for the year ended March 31, 2016 from A\$894 million in the prior fiscal year due to an increase in brokerage and commissions income mainly due to the impact of the depreciation of the Australian dollar in Macquarie Securities Group, and a performance fee in respect of a United Kingdom asset in Banking & Financial Services.
- A 28% decrease in other operating income and charges to A\$395 million for the year ended March 31, 2016 from A\$547 million in the prior fiscal year. The decrease was due to:
  - the non-recurrence of gains recognized in the prior fiscal year in Corporate & Asset Finance relating to the disposal of the North American railcar operating lease portfolio in January 2015, restructure of a railcar logistics operating lease facility in August 2014 and the sale of the Macquarie Equipment Finance United States operations in March 2015;
  - a 22% increase in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to A\$497 million for the year ended March 31, 2016 from A\$407 million in the prior fiscal year mainly due to the underperformance of certain commodity-related loans in Commodities & Financial Markets and portfolio growth as well as the underperformance of certain credits in Corporate & Asset Finance, partially offset by

- a 43% increase in net operating lease income to A\$895 million for the year ended March 31, 2016 from A\$627 million in the prior fiscal year primarily due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year and the impact of the depreciation of the Australian dollar, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

Total operating expenses increased 3% to A\$3,907 million for the year ended March 31, 2016 from A\$3777 million in the prior fiscal year mainly due to:

- A 6% increase in brokerage, commission and trading-related expenses to A\$640 million for the year ended March 31, 2016 from A\$601 million in the prior fiscal year mainly driven by increased trading-related activity in Macquarie Securities
- a 37% increase in non-salary technology expenses to A\$151 million for the year ended March 31, 2016 from A\$110 million in the prior fiscal year mainly due to the investment in technology projects to support business growth, particularly the new Core Banking program in Banking & Financial Services
- a 6% increase in total other operating expenses to A\$1,576 million for the year ended March 31, 2016 from A\$1,480 million in the prior fiscal year largely driven by the impact of the depreciation of the Australian dollar on offshore expenses and acquisitions in Corporate & Asset Finance, partially offset by
- a 3% decrease in employment expenses primarily due to the impact of lower average headcount.

Income tax expense for the year ended March 31, 2016 was A\$681 million, a 16% increase from A\$589 million in the prior fiscal year, resulting in an effective tax rate of 39.0%. See “— Results analysis — Income tax expense” below for further information on each of these drivers.

### ***Discontinued operations***

Profit from discontinued operations (net of income tax) of A\$1,040 million for the year ended March 31, 2016 represents profit from the sale of the Macquarie Investment Management business to Macquarie Financial Holdings Pty Limited and its subsidiaries on April 15, 2015, as well as profit earned by Macquarie Investment Management up until the sale date. Profit of A\$190 million in the prior fiscal year represents profit from the Macquarie Investment Management business

## Results analysis

MBL Group presents the information below relating to our financial results on a consolidated MBL Group basis.

### *Net interest and trading income*

|  | Year ended   |              | Movement  |
|--|--------------|--------------|-----------|
|  | Mar 16       | Mar 15       |           |
|  | A\$m         | A\$m         | %         |
| Net interest income .....                    | 2,172        | 2,011        | 8         |
| Net trading income .....                     | 2,124        | 1,860        | 14        |
| <b>Net interest and trading income .....</b> | <b>4,296</b> | <b>3,871</b> | <b>11</b> |

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 predominantly comprising gains and losses relating to trading activities.

For businesses that predominantly earn income from trading activities (Macquarie Securities and Commodities & Financial Markets), the relative contribution of net interest income and trading income from trading activities can vary from period to period depending on the underlying trading strategies undertaken by Macquarie and its clients.

For businesses that predominantly earn income from lending activities (Corporate & Asset Finance and Banking & Financial Services), 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 recognized at a total Banking Group level. However, for segment reporting, derivatives are accounted for on an accruals basis in the operating group segments and changes in fair value are recognized within the Corporate segment offset by the effect of hedge relationships at the total Banking Group 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 Corporate & Asset Finance, interest rate swaps are entered into to hedge the interest rate risk associated with loan assets. The interest income and associated funding costs are recognized in net interest income but the related swap is recognized 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.

See “— Segment analysis — Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)” and “— Segment analysis — Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)” for further discussion of MBL’s trading activities.

|   | Year ended   |              | Movement  |
|---|--------------|--------------|-----------|
|   | Mar 16       | Mar 15       |           |
|   | A\$m         | A\$m         |           |
| Macquarie Asset Management <sup>1</sup>           | 113          | 112          | 1         |
| Corporate & Asset Finance.....                    | 834          | 725          | 15        |
| Banking & Financial Services .....                | 941          | 825          | 14        |
| Macquarie Securities <sup>2</sup> .....           | 519          | 316          | 64        |
| Commodities & Financial Markets <sup>3</sup>      |              |              |           |
| Commodities <sup>4</sup> .....                    | 1,309        | 1,154        | 13        |
| Credit, interest rates and foreign exchange ..... | 364          | 481          | (24)      |
| Corporate <sup>5</sup>                            | 216          | 258          | (16)      |
| <b>Net interest and trading income .....</b>      | <b>4,296</b> | <b>3,871</b> | <b>11</b> |

<sup>1</sup> Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets and the Macquarie Investment Management divisions that are part of the Non-Banking Group. See “—Presentation.”

<sup>2</sup> Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

<sup>3</sup> Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

<sup>4</sup> Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

<sup>5</sup> The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

Net interest and trading income of A\$4,296 million for the year ended March 31, 2016 increased 11% from A\$3,871 million in the prior fiscal year. All operating groups contributed to the increase with key drivers being the impact of the depreciation of the Australian dollar, a strong contribution from the commodities platform in Commodities and Financial Markets with customer flow underpinned by volatility in global commodity prices and strong client flows in foreign exchange and interest rate markets due to ongoing market volatility, improved trading opportunities driven by increased market volatility in Macquarie Securities, accretion of interest income on loans acquired at a discount, growth of the motor vehicle portfolio in Corporate & Asset Finance and growth in lending and deposit volumes in Banking & Financial Services. These were partially offset by lower income from credit activities in Commodities & Financial Markets as a result of challenging market conditions and subdued client risk appetite in secondary markets, which were influenced by a sell-off in United States credit markets.

*Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets and the Macquarie Investment Management divisions)*

Net interest and trading income in Macquarie Asset Management includes income on specialized retail products and interest income from the provision of financing facilities to external funds and their investors.

Net interest and trading income of A\$113 million for the year ended March 31, 2016 was broadly in line with A\$112 million in the prior fiscal year.

*Corporate & Asset Finance*

Net interest and trading income in Corporate & Asset Finance predominantly relates to net income from the loan and finance lease portfolio, partially offset by the funding costs associated with the operating lease portfolio.

Net interest and trading income of A\$834 million for the year ended March 31, 2016 increased 15% from A\$725 million in the prior fiscal year. The increase was mainly due to the impact of the depreciation of the Australian dollar, the growth in the motor vehicle portfolio due to the acquisition of the Esanda Portfolio in November 2015, the accretion of interest income on loans acquired at a discount in the Lending portfolio and lower funding costs as a result of the sale of the North American railcar operating lease portfolio in January 2015.



The impact of these was partially offset by increased funding costs driven by the growth of the aircraft operating lease portfolio and lower income due to the sale of the Macquarie Equipment Finance United States operations in March 2015.

The loan and finance lease portfolio of A\$28.7 billion at March 31, 2016 increased 29% from A\$22.3 billion in the prior fiscal year mainly driven by the acquisition of the Esanda Portfolio in November 2015.

#### *Banking & Financial Services*

Net interest and trading income in Banking & Financial Services relates to interest income earned from the loan portfolio that primarily comprises residential mortgages in Australia, loans to Australian businesses, insurance premium funding and credit cards. Banking & Financial Services also generates income from deposits by way of a deposit premium received from Group Treasury, which use the deposits as a source of funding for the MBL Group.

Net interest and trading income of A\$941 million for the year ended March 31, 2016 increased 14% from A\$825 million in the prior fiscal year primarily due to growth in lending and deposit volumes, including:

- a 16% increase in Australian mortgage volumes to A\$28.5 billion at March 31, 2016 from A\$24.5 billion at March 31, 2015, including the acquisition of a residential mortgage portfolios totaling A\$1.2 billion during the year;
- a 15% increase in business lending volumes to A\$6.0 billion at March 31, 2016 from A\$5.2 billion at March 31, 2015; and
- an 8% increase in Banking & Financial Services deposits to A\$40.4 billion at March 31, 2016 from A\$37.3 billion at March 31, 2015.

The increased net interest and trading income from volume growth was partially offset by lower deposit margins. Average net interest margins on deposits were impacted by the Reserve Bank of Australia interest rate cuts made in February 2015 and May 2015.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the United States, are in run-off and closed at a combined A\$1.6 billion at March 31, 2016, a decrease of 58% from A\$3.8 billion at March 31, 2015.

#### *Macquarie Securities*

Net interest and trading income in Macquarie Securities primarily relates to trading income from equities and derivative products and stock borrow and lending activities.

Net interest and trading income of A\$519 million for the year ended March 31, 2016 increased significantly from A\$316 million in the prior fiscal year. In the first half of the year, the business benefited from increased market volatility, particularly in China, while in the second half of the year trading opportunities were limited as regulatory changes in China and macro concerns impacted equity markets and liquidity.

#### *Commodities & Financial Markets*

Net interest and trading income in Commodities & Financial Markets is earned from the provision of risk and capital solutions across physical and financial markets

#### *Commodities*

Net interest and trading income from commodities was A\$1,309 million for the year ended March 31, 2016, an increase of 13% from A\$1,154 million in the prior fiscal year.

The Energy Markets business remained a significant contributor with revenues generated across its platform particularly in North American Gas and Power and Global Oil. Continued volatility in global commodity prices underpinned increased customer flow, notably in North American Gas and Power, which resulted in increased income compared with the prior fiscal year.

Income from activities in other commodity markets, including base metals, precious metals and agricultural commodities, benefited from increased client activity and continued business growth compared to the prior fiscal year.

Financing income was down on the prior fiscal year. The prior fiscal year included higher income in relation to storage costs previously paid by Macquarie and recovered from clients as higher financing margins. For accounting purposes, the associated storage costs are recognized in brokerage, commission and trading-related expenses, which has the effect of grossing up both the income and the expense lines. Excluding the effect of the change in storage arrangements with clients, the underlying result was broadly in line with the prior fiscal year with the impact of the depreciation of the Australian dollar offset by a decrease in physical metals financing driven by reduced customer appetite.

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

Net interest and trading income from credit, interest rates and foreign exchange products of A\$364 million for the year ended March 31, 2016 decreased 24% from A\$481 million in the prior fiscal year.

Reduced operating income in the current fiscal year was largely driven by challenging market conditions, particularly in high yield credit markets and asset backed securitizations, and subdued client risk appetite in secondary markets, which were influenced by a sell-off in United States credit markets. This was partially offset by strong client flows in foreign exchange and interest rates markets due to ongoing market volatility.

#### *Corporate*

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for the MBL Group, earnings on capital 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 A\$216 million for the year ended March 31, 2016 decreased 16% from A\$258 million in the prior fiscal year primarily due to a change in the approach to recovering Group Treasury operating costs from an increased internal funding rate in the prior fiscal year to a direct recovery through operating expenses in the current fiscal year, partially offset by increased income from higher capital balances.

#### *Fee and commission income*

|   | Year ended |            | Movement |
|---|------------|------------|----------|
|   | Mar 16     | Mar 15     |          |
|   | A\$m       | A\$m       | %        |
| Brokerage and commissions .....             | 436        | 408        | 7        |
| Other fee and commission income.....        | 494        | 486        | 2        |
| <b>Total fee and commission income.....</b> | <b>930</b> | <b>894</b> | <b>4</b> |

#### *Brokerage and commissions*

Brokerage and commissions income of A\$436 million for the year ended March 31, 2016 increased 7% from A\$408 million in the prior fiscal year. Macquarie Securities reported higher brokerage and commissions income

mainly driven by improved market turnover in Australia and Asia, and the impact of the depreciation of the Australian dollar.

Commodities & Financial markets also reported higher brokerage and commissions income due to increased market volumes traded in offshore commodity futures markets driven by ongoing volatility. These increases were partially offset by a decrease in Banking & Financial Services mainly due to a reduction in adviser headcount.

*Other fee and commission income*

Other fee and commission income of A\$494 million for the year ended March 31, 2016 increased 2% from A\$486 million in the prior fiscal year mainly due to the non-recurrence of internal transactions recognized in the prior fiscal year in Corporate and a performance fee in respect of a United Kingdom asset and increased platform commissions from higher funds on the wrap platform in Banking & Financial Services. This was partially offset by the non-recurrence of fee income from the Freeport LNG Terminal transaction recognized in the prior fiscal year in Commodities & Financial Markets and lower income due to the sale of the almond orchard in Macquarie Asset Management.

Banking & Financial Services reported increased platform commissions from higher funds on the wrap platform. Funds on platform closed at A\$58.4 billion on March 31, 2016, an increase of 22% from A\$48.0 billion at March 31, 2015 mainly driven by A\$9.2 billion in CHESS holdings and A\$0.9 billion of CMA Cash holdings associated with platform ready full service broking accounts migrating to the Vision Platform in December 2015.

*Share of (losses)/net profits of associates and joint ventures*

|  | Year ended |             | Movement |
|--|------------|-------------|----------|
|  | Mar 16     | Mar 15      |          |
|  | A\$m       | A\$m        | %        |
| <b>Share of net (losses)/profits of associates and joint ventures accounted for using the equity method.....</b> | <b>22</b>  | <b>(17)</b> | <b>*</b> |

Share of net (losses)/profits of associates and joint ventures for the year ended March 31, 2016 was a net profit of A\$22 million compared to a loss of A\$17 million in the prior fiscal year. The movement primarily reflected changes in the underlying performance of central investments in Corporate, which include certain legacy and other non-core assets.

*Other operating income and charges*

|   | Year ended |            | Movement <sup>1</sup> |
|---|------------|------------|-----------------------|
|   | Mar 16     | Mar 15     |                       |
|   | A\$m       | A\$m       | %                     |
| Net gains on sale of investment securities available-for-sale .....   | 28         | 33         | (15)                  |
| Impairment charge on investment securities available-for-sale.....  | (33)       | (54)       | (39)                  |
| Net gains on sale of associates and joint ventures .....  | 20         | 38         | (47)                  |
| Impairment (charge)/reversal on interest in associates and joint ventures.....  | (4)        | (20)       | (80)                  |
| (Loss)/Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held for sale | (24)       | 144        | *                     |
| Impairment charge on intangibles and other non-financial assets .....   | (60)       | (72)       | (17)                  |
| Gain on disposal of operating lease assets  | 8          | 231        | (97)                  |
| Net operating lease income.....   | 895        | 627        | 43                    |
| Dividends/distributions received/receivable.....  | 38         | 27         | 41                    |
| Collective allowance for credit losses provided for during the financial year .....   | (6)        | (84)       | (93)                  |
| Individually assessed provisions for impairment and write-offs .....  | (491)      | (323)      | 52                    |
| Other income/(charges) .....  | 24         | -          | *                     |
| <b>Total other operating income and charges .....</b>   | <b>395</b> | <b>547</b> | <b>(28)</b>           |

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<sup>1</sup> “\*\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Total other operating income and charges of A\$395 million for the year ended March 31, 2016 decreased 28% from A\$547 million in the prior fiscal year.

Net gains on sale of investments (including investment securities available-for-sale and investments in associates and joint ventures) of A\$48 million for the year ended March 31, 2016 decreased 32% from A\$71 million in the prior fiscal year. The decrease primarily related to the non-recurrence of gains in the prior fiscal year in Corporate on the disposal of securities undertaken in managing the Group’s liquidity and on disposal of legacy investments.

Impairment charges on investment securities available for sale, associates, joint ventures, intangibles and other non-financial assets of A\$97 million in the year ended March 31, 2016 decreased 34% from A\$146 million in the prior fiscal year. The decrease predominantly related to the improved performance of the residual equity investment portfolio in Commodities & Financial Markets.

Gain on disposal of operating lease assets of A\$8 million for the year ended March 31, 2016 decreased significantly from A\$231 million in the prior fiscal year. The gain in the prior fiscal year predominately related to the gain on disposal of the North American railcar operating lease portfolio in January 2015, gains on the sale of aircraft and the restructure of a railcar logistics operating lease facility in August 2014 resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable in Corporate & Asset Finance. There were no significant transactions during the year ended March 31, 2016.

Loss on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of A\$24 million in the year ended March 31, 2016 compared to a gain of A\$144 million in the prior fiscal year due to the non-recurrence of the gain on the sale of the Macquarie Equipment Finance United States operations recognized in the prior fiscal year in Corporate & Asset Finance.

Net operating lease income, which is predominantly earned by Corporate & Asset Finance, of A\$895 million for the year ended March 31, 2016 increased 43% from A\$627 million in the prior fiscal year. The increase was primarily due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year and the impact of the depreciation of the Australian dollar, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

The operating lease portfolio was A\$10.6 billion at March 31, 2016, an increase of 68% from A\$6.3 billion at March 31, 2015, mainly due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited.

Aggregate charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses provided for of A\$497 million for the year ended March 31, 2016 increased 22% from A\$407 million in the prior fiscal year. The growth was mainly due to the underperformance of certain commodity-related loans in Commodities & Financial Markets and portfolio growth and the underperformance of certain credits in Corporate & Asset Finance, partially offset by reduced collective provisions reflecting the changing mix of assets in the lending and finance lease portfolios and repayments during the year.

Other income of A\$24 million for the year ended March 31, 2016 increased significantly from the prior fiscal year. The increase was primarily due to ancillary financing and service income earned on plant and equipment acquired during the year in Corporate & Asset Finance and higher dividends received in Banking & Financial Services including a one-off dividend on disposal of an investment in a United Kingdom asset, partially offset by a decrease in gains recognized on the sale of equity investments in Commodities & Financial Markets.

## Operating expenses

|  | Year ended     |                | Movement<br>% |
|--|----------------|----------------|---------------|
|  | Mar 16<br>A\$m | Mar 15<br>A\$m |               |
| <b>Employment expenses:</b>  |                |                |               |
| Salary and salary related costs including commissions, superannuation and performance-related profit share ..... | (1,297)        | (1,313)        | (1)           |
| Share based payments.....  | (132)          | (148)          | (11)          |
| Reversal of/(provision for) long service leave and annual leave .....  | 1              | (5)            | *             |
| <b>Total employment expenses</b> .....   | <b>(1,428)</b> | <b>(1,466)</b> | <b>(3)</b>    |
| Brokerage, commission and trading related expenses .....   | (640)          | (601)          | 6             |
| Occupancy expenses.....  | (112)          | (120)          | (7)           |
| Non-salary technology expenses .....   | (151)          | (110)          | 37            |
| Other operating expenses:  |                |                |               |
| Professional fees .....  | (201)          | (163)          | 23            |
| Auditor's remuneration .....   | (22)           | (16)           | 38            |
| Travel and entertainment expenses .....  | (57)           | (55)           | 4             |
| Advertising and communication expenses .....   | (34)           | (35)           | (3)           |
| Amortization of intangibles .....  | (34)           | (39)           | (13)          |
| Other expenses .....   | (1,228)        | (1,172)        | 5             |
| <b>Total other operating expenses</b> .....  | <b>(1,576)</b> | <b>(1,480)</b> | <b>6</b>      |
| <b>Total operating expenses</b> .....  | <b>(3,907)</b> | <b>(3,777)</b> | <b>3</b>      |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Total operating expenses of A\$3,907 million for the year ended March 31, 2016 increased 3% from A\$3,777 million in the prior fiscal year mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and investment in technology projects to support business growth, particularly the Core Banking program in Banking & Financial Services.

Total employment expenses of A\$1,428 million for the year ended March 31, 2016 decreased 3% from A\$1,466 million in the prior fiscal year. This reflected the impact of lower average headcount, mainly driven by lower headcount in Banking & Financial Services as the business realized efficiencies and the sale of the Macquarie Equipment Finance United States operations in Corporate & Asset Finance, partially offset by the impact of the depreciation of the Australian dollar on offshore expenses and business acquisitions in Corporate & Asset Finance.

Brokerage, commission and trading-related expenses of A\$640 million for the year ended March 31, 2016 increased 6% from A\$601 million in the prior fiscal year mainly driven by increased trading-related activity in Macquarie Securities, partially offset by a reduction in storage costs for physical commodities in Commodities & Financial Markets.

Non-salary technology expenses of A\$151 million for the year ended March 31, 2016 increased 37% from A\$110 million in the prior fiscal year mainly due to the investment in technology projects to support business growth, particularly the Core Banking Program in Banking & Financial Services.

Other operating expenses, which includes professional fees, auditor's remuneration, travel and entertainment, advertising and communication, amortization of intangibles and other expenses, in aggregate increased 6% compared to the prior fiscal year. The increase was mainly due to the costs of the acquisition and management of the Esanda Portfolio in Corporate & Asset Finance.

## Headcount

|  | Year ended   |              | Movement<br>%  |
|--|--------------|--------------|----------------|
|  | Mar 16       | Mar 15       |                |
| <b>Headcount by operating group</b>                    |              |              |                |
| Macquarie Asset Management .....                       | 105          | 99           | 6              |
| Corporate & Asset Finance.....                         | 1,350        | 1,017        | 33             |
| Banking & Financial Services .....                     | 2,180        | 2,504        | (13)           |
| Macquarie Securities .....                             | 158          | 152          | 4              |
| Commodities & Financial Markets.....                   | 795          | 828          | (4)            |
| <b>Total headcount — operating groups .....</b>        | <b>4,588</b> | <b>4,600</b> | <b>(&lt;1)</b> |
| <b>Total headcount — discontinued operations .....</b> | <b>93</b>    | <b>880</b>   | <b>(89)</b>    |
| <b>Total headcount — Corporate.....</b>                | <b>40</b>    | <b>45</b>    | <b>(11)</b>    |
| <b>Total headcount .....</b>                           | <b>4,721</b> | <b>5,525</b> | <b>(15)</b>    |
| <b>Headcount by region</b>                             |              |              |                |
| Australia .....  | 3,389        | 3,536        | (4)            |
| International:   |              |              |                |
| Americas.....  | 514          | 1,177        | (56)           |
| Asia Pacific.....                                      | 327          | 353          | (7)            |
| Europe, Middle East and Africa .....                   | 491          | 459          | 7              |
| <b>Total headcount — International.....</b>            | <b>1,332</b> | <b>1,989</b> | <b>(33)</b>    |
| <b>Total headcount .....</b>                           | <b>4,721</b> | <b>5,525</b> | <b>(15)</b>    |
| International headcount ratio (%) .....                | 28           | 36           |                |

Total headcount of 4,721 as at March 31, 2016 decreased 15% from 5,525 as at March 31, 2015, mainly due to the transfer of the Macquarie Investment Management division from the Banking Group to the Non-Banking Group on April 15, 2015, the sale of the Macquarie Equipment Finance United States operations in March 2015 in Corporate & Asset Finance and the realization of efficiencies in Banking & Financial Services. This was partially offset by higher headcount due to the acquisition of the Esanda Portfolio in November 2015 in Corporate & Asset Finance.

## Income tax expense

|   | Year ended     |                |
|---|----------------|----------------|
|   | Mar 16<br>A\$m | Mar 15<br>A\$m |
| Operating profit from continuing operations before income tax ..... | 1,736          | 1,518          |
| Prima facie tax @ 30% .....   | 521            | 455            |
| Income tax permanent differences .....                              | 160            | 134            |
| Income tax expense .....  | 681            | 589            |
| <b>Effective tax rate (%)<sup>1</sup> .....</b>                     | <b>39.0%</b>   | <b>38.9%</b>   |

<sup>1</sup> 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 A\$11 million for the year ended March 31, 2016 (Year ended March 31, 2015: reduced net profit before income tax by A\$5 million). The effective tax rate differs from the Australian company tax rate due to permanent tax differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned outside of Australia.

Income tax expense for the year ended March 31, 2016 was A\$681 million, up 16% from A\$589 million in the prior fiscal year with an effective tax rate of 39.0%.

The increase in income tax expense was driven by a 14% increase in operating profit before income tax to A\$1,736 million for the year ended March 31, 2016, from A\$1,518 million in the prior fiscal year, and a 19% increase in income tax permanent differences to A\$160 million in the year ended March 31, 2016, from A\$134 million in the prior fiscal year. The increase in income tax permanent differences compared to the prior fiscal year was mainly due to changes in the nature and composition of earnings across the Bank.

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

## Segment overview

### Summary of segment results

|   | Macquarie<br>Asset<br>Management <sup>1</sup> | Banking &<br>Financial<br>Services | Commodities<br>& Financial<br>Markets <sup>2</sup> | Macquarie<br>Securities <sup>3</sup> | Corporate &<br>Asset Finance | Corporate <sup>4</sup> | Total          |
|---|---|------------------------------------|--|--------------------------------------|------------------------------|------------------------|----------------|
|   | A\$m  | A\$m                               | A\$m   | A\$m                                 | A\$m                         | A\$m                   | A\$m           |
| <b>Year ended March 31, 2016</b>  |   |                                    |  |                                      |                              |                        |                |
| Net interest and trading income...  | 113   | 941                                | 1,673  | 519                                  | 834                          | 216                    | 4,296          |
| Fee and commission<br>income/(expense) .....  | 54  | 524                                | 200  | 129                                  | 44                           | (21)                   | 930            |
| Share of net profits/(losses) of<br>associates and JVs<br>accounted for using the<br>equity method..... | -   | 1                                  | 5  | -                                    | 7                            | 9                      | 22             |
| Other operating income and<br>charges .....   | 22  | (8)                                | (283)  | (1)                                  | 764                          | (99)                   | 395            |
| Internal management<br>(charge)/revenue.....  | 2   | 4                                  | 2  | (4)                                  | 60                           | (64)                   | -              |
| <b>Net operating income .....</b>   | <b>191</b>                                    | <b>1,462</b>                       | <b>1,597</b>                                       | <b>643</b>                           | <b>1,709</b>                 | <b>41</b>              | <b>5,643</b>   |
| <b>Total operating expenses.....</b>  | <b>(116)</b>                                  | <b>(1,114)</b>                     | <b>(1,065)</b>                                     | <b>(443)</b>                         | <b>(589)</b>                 | <b>(580)</b>           | <b>(3,907)</b> |
| Profit/(loss) before tax.....   | 75  | 348                                | 532  | 200                                  | 1,120                        | (539)                  | 1,736          |
| Tax expense.....  |   |                                    |  |                                      |                              | (681)                  | (681)          |
| Profit/(loss) attributable to non-<br>controlling interests .....                                       |   |                                    |  |                                      | 1                            | 10                     | 11             |
| <b>Profit/(loss) attributable to<br/>equity holders.....</b>  | <b>75</b>                                     | <b>348</b>                         | <b>532</b>   | <b>200</b>                           | <b>1,121</b>                 | <b>(1,210)</b>         | <b>1,066</b>   |
| Distributions paid or provided<br>for on MIS  |   |                                    |  |                                      |                              | (16)                   | (16)           |
| <b>Net profit/(loss) contribution ....</b>  | <b>75</b>                                     | <b>348</b>                         | <b>532</b>   | <b>200</b>                           | <b>1,121</b>                 | <b>(1,226)</b>         | <b>1,050</b>   |

<sup>1</sup> Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division that are part of the Non-Banking Group. See “—Presentation.”

<sup>2</sup> Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

<sup>3</sup> Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

<sup>4</sup> The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

|   | <u>Macquarie<br/>Asset<br/>Management<sup>1</sup></u><br>A\$m | <u>Banking &amp;<br/>Financial<br/>Services</u><br>A\$m | <u>Commodities<br/>&amp; Financial<br/>Markets<sup>2</sup></u><br>A\$m | <u>Macquarie<br/>Securities<sup>3</sup></u><br>A\$m | <u>Corporate &amp;<br/>Asset Finance</u><br>A\$m | <u>Corporate<sup>4</sup></u><br>A\$m | <u>Total</u><br>A\$m |
|---|---|---|--|---|--|--------------------------------------|----------------------|
| <b>Year ended March 31, 2015</b>  |   |   |  |   |  |                                      |                      |
| Net interest and trading income   | 112   | 825   | 1,635  | 316   | 725  | 258                                  | 3,871                |
| Fee and commission<br>income/(expense).....   | 84  | 528   | 348  | 59  | 34   | (159)                                | 894                  |
| Share of net profits/(losses) of<br>associates and JVs<br>accounted for using the<br>equity method..... | (1)   | 3   | (1)  | -   | 4  | (22)                                 | (17)                 |
| Other operating income and<br>charges.....  | 24  | (19)  | (262)  | (3)   | 826  | (19)                                 | 547                  |
| Internal management<br>revenue/(charges) .....  | (1)   | 3   | (10)   | (4)   | (4)  | 16                                   | -                    |
| <b>Net operating income</b> .....   | <u>218</u>  | <u>1,340</u>  | <u>1,710</u>   | <u>368</u>  | <u>1,585</u>                                     | <u>74</u>                            | <u>5,295</u>         |
| <b>Total operating expenses</b> .....   | <u>(121)</u>  | <u>(1,060)</u>  | <u>(942)</u>   | <u>(367)</u>  | <u>(477)</u>                                     | <u>(810)</u>                         | <u>(3,777)</u>       |
| Profit /(loss) before tax.....  | 97  | 280   | 768  | 1   | 1,108  | (736)                                | 1,518                |
| Tax expense.....  |   |   |  |   |  | (589)                                | (589)                |
| Profit/(loss) attributable to non-<br>controlling interests .....                                       |   |   |  |   |  | (5)                                  | (5)                  |
| <b>Profit/(loss) attributable to<br/>equity holders</b> .....   | <u>97</u>   | <u>280</u>  | <u>768</u>   | <u>1</u>  | <u>1,108</u>                                     | <u>(1,330)</u>                       | <u>924</u>           |
| Distributions paid or provided<br>for on MIS .....  |   |   |  |   |  | (18)                                 | (18)                 |
| <b>Net profit/(loss) contribution</b> .....   | <u>97</u>   | <u>280</u>  | <u>768</u>   | <u>1</u>  | <u>1,108</u>                                     | <u>(1,348)</u>                       | <u>906</u>           |

<sup>1</sup> Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division that are part of the Non-Banking Group. See “—Presentation.”

<sup>2</sup> Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

<sup>3</sup> Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

<sup>4</sup> The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.



## ***Basis of preparation***

### *MBL Group segments*

AASB 8 “*Operating Segments*” requires the ‘management approach’ to disclosing information about Macquarie Bank’s reportable segments. The financial information is reported on the same basis as used internally by senior management for evaluating operating segment performance and for deciding how to allocate resources to operating segments. Such information may be produced using different measures to that used in preparing the statutory income statement. The financial information disclosed relates to ordinary activities. Financial information relating to discontinued operations of the Macquarie Investment Management division is included in Note 43: Discontinued Operations and Held for Sale Disposal Groups of the 2016 MBL Financial Report. See “—Presentation.”

For internal reporting, performance measurement and risk management purposes, MBL Group is divided into five operating groups and a corporate segment. These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below. The operating groups comprise:

- Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities);
- Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions);
- Banking & Financial Services;
- Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); and
- Corporate & Asset Finance.

The Corporate segment, which is not considered an operating group, includes head office and central service groups including Group Treasury. The Corporate segment also holds certain legacy investments, assets and businesses that are no longer core for strategic reasons and not allocated to any of the operating groups.

Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

All transactions and transfers between segments are generally determined on an arm’s length basis and are included within the relevant categories of income. These transactions eliminate on aggregation/consolidation.

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

### *Internal funding arrangements*

Operating groups are fully debt funded. Group Treasury has the responsibility for managing funding for the Group, and operating groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding. Break costs are charged to operating groups for the early repayment of term funding.

Generally operating groups may only source funding directly from external sources when there is recourse only to the assets being funded and not to the Bank.

Deposits are a funding source for Macquarie. Banking & Financial Services receives a deposit premium from Group Treasury on deposits they generate. This deposit premium is included within net interest and trading income for segment reporting purposes.

#### *Transactions between operating groups*

Operating groups that enter into arrangements with other operating groups must do so on commercial terms or as agreed by the Group's Chief Executive Officer or Chief Financial Officer. There is a requirement for accounting symmetry in such transactions. Internal transactions are recognized in each of the relevant categories of income and expense as appropriate.

#### *Central service groups*

Central service groups recover their costs from operating groups on either a time and effort allocation basis or a fee for service basis. Central service groups include Corporate Operations Group ("COG"), Financial Management Group ("FMG"), Risk Management Group ("RMG"), Legal and Governance and Central Executive.

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

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan ("MEREPE"), is recognized in the Corporate segment and not allocated to operating groups.

#### *Income tax*

Income tax expense and benefits are recognized in the Corporate segment and not allocated to operating groups. However, to recognize an operating group's contribution to permanent income tax differences, an internal management revenue or charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognized 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 summarized 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 MBL Group's financial performance.

## Segment analysis

### *Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets and the Macquarie Investment Management divisions)*<sup>3</sup>

|   | Year ended   |              | Movement <sup>1</sup> |
|---|--------------|--------------|-----------------------|
|   | Mar 16       | Mar 15       |                       |
|   | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b> .....  | <b>113</b>   | <b>112</b>   | <b>1</b>              |
| <b>Fee and commission income</b> .....  | <b>54</b>    | <b>84</b>    | <b>(36)</b>           |
| <b>Share of net profits/(losses) of associates and joint ventures accounted for using the equity method</b> ..... | -            | (1)          | (100)                 |
| <b>Other operating income and charges</b>   |              |              |                       |
| <b>Total other operating income and charges</b> .....   | <b>22</b>    | <b>24</b>    | <b>(8)</b>            |
| <b>Internal management revenue/(charge)</b> <sup>2</sup> .....  | <b>2</b>     | <b>(1)</b>   | <b>*</b>              |
| <b>Net operating income</b> .....   | <b>191</b>   | <b>218</b>   | <b>(12)</b>           |
| <b>Operating expenses</b>   |              |              |                       |
| Employment expenses .....   | (29)         | (21)         | 38                    |
| Brokerage, commission and trading-related expenses .....  | (22)         | (16)         | 38                    |
| Other operating expenses .....  | (65)         | (84)         | (23)                  |
| <b>Total operating expenses</b> .....   | <b>(116)</b> | <b>(121)</b> | <b>(4)</b>            |
| <b>Net profit contribution</b> .....  | <b>75</b>    | <b>97</b>    | <b>(23)</b>           |
| <b>Other metrics</b>  |              |              |                       |
| Headcount .....   | 105          | 99           | 6                     |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Income tax”.

<sup>3</sup> On April 15, 2015 the Macquarie Investment Management division of Macquarie Asset Management was transferred to the Non-Banking Group. See “Macquarie Bank Limited — Operating Groups — Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division)” and “—Presentation” for details of this transfer and its expected impacts.

Macquarie Asset Management’s net profit contribution of A\$75 million for the year ended March 31, 2016 decreased 23% from A\$97 million in the prior fiscal year. This was largely due to the non-recurrence of income items recognized in the prior fiscal year and lower income due to the sale of the almond orchard, partially offset by the gain on sale of the almond orchard.

#### **Net interest and trading income**

Net interest and trading income of A\$113 million for the year ended March 31, 2016 was broadly in line with A\$112 million in the prior fiscal year.

#### **Fee and commission income**

Total fee and commission income includes base fees, distribution service fees, structuring fees, principal protection fees and brokerage and commission.

Total fee and commission income of A\$54 million for the year ended March 31, 2016 decreased 36% from A\$84 million in the prior fiscal year, primarily driven by lower income due to the sale of the almond orchard and the non-recurrence of one-off income items in the prior fiscal year.

#### **Other operating income and charges**

Other operating income and charges of A\$22 million for the year ended March 31, 2016 decreased 8% from A\$24 million in the prior fiscal year. Lower income due to the sale of the vineyard operations and higher provisions were partially offset by the gain on sale of the almond orchard.

**Operating expenses**

Total operating expenses of A\$116 million for the year ended March 31, 2016 decreased 4% from A\$121 million in the prior fiscal year, primarily driven by lower expenses due to the sale of the almond orchard and vineyard operations.

## Banking & Financial Services

|  | Year ended     |                | Movement <sup>1</sup> |
|--|----------------|----------------|-----------------------|
|  | Mar 16         | Mar 15         |                       |
|  | A\$m           | A\$m           | %                     |
| <b>Net interest and trading income</b> .....   | <b>941</b>     | <b>825</b>     | <b>14</b>             |
| <b>Fee and commission income</b>   |                |                |                       |
| Brokerage and commissions .....  | 89             | 122            | (27)                  |
| Other fee and commission income.....   | 435            | 406            | 7                     |
| <b>Total fee and commission income</b> .....   | <b>524</b>     | <b>528</b>     | <b>(1)</b>            |
| <b>Share of net profits of associates and joint ventures accounted for using the equity method</b> ..... | <b>1</b>       | <b>3</b>       | <b>(67)</b>           |
| <b>Other operating income and charges</b>  |                |                |                       |
| Impairment charge on equity investments and other non-financial assets.....                              | (8)            | (5)            | 60                    |
| Provisions for impairment, write-offs and collective allowance for credit losses.....                    | (35)           | (31)           | 13                    |
| Other income .....   | 35             | 17             | 106                   |
| <b>Total other operating (charges)/income</b> .....  | <b>(8)</b>     | <b>(19)</b>    | <b>(58)</b>           |
| <b>Internal management revenue</b> <sup>2</sup> .....  | <b>4</b>       | <b>3</b>       | <b>33</b>             |
| <b>Net operating income</b> .....  | <b>1,462</b>   | <b>1,340</b>   | <b>9</b>              |
| <b>Operating expenses</b>  |                |                |                       |
| Employment expenses .....  | (345)          | (372)          | (7)                   |
| Brokerage, commission and trading-related expenses .....   | (207)          | (198)          | 5                     |
| Technology expenses <sup>3</sup> .....   | (282)          | (211)          | 34                    |
| Other operating expenses.....  | (280)          | (279)          | <1                    |
| <b>Total operating expenses</b> .....  | <b>(1,114)</b> | <b>(1,060)</b> | <b>5</b>              |
| <b>Net profit contribution</b> .....   | <b>348</b>     | <b>280</b>     | <b>24</b>             |
| <b>Other metrics</b>   |                |                |                       |
| Funds on platform (A\$ billion) <sup>4</sup> .....   | 58.4           | 48.0           | 22                    |
| Australian loan portfolio (A\$ billion) <sup>5</sup> .....   | 35.1           | 30.4           | 15                    |
| Legacy loan portfolio (A\$ billion) <sup>6</sup> .....   | 1.6            | 3.8            | (58)                  |
| Banking & Financial Services deposits (A\$ billion) <sup>7</sup> .....                                   | 40.4           | 37.3           | 8                     |
| Headcount.....   | 2,180          | 2,504          | (13)                  |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Income tax”.

<sup>3</sup> Technology expenses include technology staff expenses, depreciation of technology assets, amortization of capitalised software and maintenance costs.

<sup>4</sup> Funds on platform includes Macquarie wrap, Vision, Equity Portfolio Services and Industry Super Funds.

<sup>5</sup> The Australian loan portfolio primarily comprises residential mortgages, loans to businesses, insurance premium funding and credit cards.

<sup>6</sup> The legacy loan portfolios primarily comprise residential mortgages in Canada and the United States.

<sup>7</sup> Banking & Financial Services deposits excludes corporate/wholesale deposits.

Banking & Financial Services’ net profit contribution of A\$348 million for the year ended March 31, 2016 increased 24% from A\$280 million in the prior fiscal year.

In the year ended March 31, 2016, Banking & Financial Services benefited from increased income as a result of strong volume growth in Australian mortgages, business lending, deposits and the wrap platform, partially offset by increased costs associated with the investment in technology projects to support growth in the business, including the Core Banking system.

### Net interest and trading income

Net interest and trading income of A\$941 million for the year ended March 31, 2016 increased 14% from A\$825 million in the prior fiscal year primarily due to growth in lending and deposit volumes, including:

- a 16% increase in Australian mortgage volumes to A\$28.5 billion at March 31, 2016 from A\$24.5 billion at March 31, 2015, including the acquisition of a residential mortgage portfolio totaling A\$1.2 billion during the year;
- a 15% increase in business lending volumes to A\$6.0 billion at March 31, 2016 from A\$5.2 billion at March 31, 2015; and
- an 8% increase in Banking & Financial Services deposits to A\$40.4 billion at March 31, 2016 from A\$37.3 billion at March 31, 2015.

The increased net interest and trading income from volume growth was partially offset by lower deposit margins. Average net interest margins on deposits were impacted by the Reserve Bank of Australia interest rate cuts made in February 2015 and May 2015.

The legacy loan portfolios, which primarily comprise residential mortgages in Canada and the United States, are in run-off and closed at a combined A\$1.6 billion at March 31, 2016, a decrease of 58% from A\$3.8 billion at March 31, 2015.

## **Fee and commission income**

### *Brokerage and commissions*

Brokerage and commissions income is largely derived from the provision of retail equities broking services in Australia. Brokerage and commissions income of A\$89 million for the year ended March 31, 2016 decreased 27% from A\$122 million in the prior fiscal year mainly due to a reduction in adviser headcount.

### *Other fee and commission income*

Other fee and commission income relates to fees earned on a range of Banking & Financial Services' products including the wrap platform, insurance, business lending, credit cards and mortgages.

Other fee and commission income of A\$435 million for the year ended March 31, 2016 increased 7% from A\$406 million in the prior fiscal year, driven by a performance fee in respect of a United Kingdom asset and increased platform commissions from higher funds on the wrap platform.

Funds on platform closed at A\$58.4 billion on March 31, 2016, an increase of 22% from A\$48.0 billion at March 31, 2015 mainly driven by A\$9.2 billion in CHESS holdings and A\$0.9 billion of CMA Cash holdings associated with platform ready full service broking accounts migrating to the Vision Platform in December 2015.

## **Other operating income and charges**

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

Provisions for impairment, write-offs and collective allowance for credit losses of A\$35 million for the year ended March 31, 2016 increased 13% from A\$31 million in the prior fiscal year due to increased business lending provisions from a small number of loans.

### *Other Income*

Other income of A\$35 million for the year ended March 31, 2016 increased significantly from A\$17 million in the prior fiscal year mainly due to higher dividends received including a one-off dividend on disposal of an investment in a United Kingdom asset.

## **Operating expenses**

Total operating expenses of A\$1,114 million for the year ended March 31, 2016 increased 5% from A\$1,060 million in the prior fiscal year, primarily due to increased technology project costs.

### *Employment expenses*

Employment expenses of A\$345 million for the year ended March 31, 2016 decreased 7% from A\$372 million in the prior fiscal year, driven by lower headcount as the business realized efficiencies.

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

Brokerage, commission and trading-related expenses are mainly amounts paid to external advisers for product distribution, and the cost of credit cards partner and rewards programs. Brokerage, commission and trading-related expenses of A\$207 million for the year ended March 31, 2016 increased 5% from A\$198 million in the prior fiscal year, primarily due to increased lending and deposit volumes that are largely introduced by external advisers.

### *Technology expenses*

Technology expenses of A\$282 million for the year ended March 31, 2016 increased 34% from A\$211 million in the prior fiscal year due to higher project activity and the Core Banking program.

*Corporate & Asset Finance*

|  | Year ended   |              | Movement <sup>1</sup> |
|--|--------------|--------------|-----------------------|
|  | Mar 16       | Mar 15       |                       |
|  | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b> .....   | <b>834</b>   | <b>725</b>   | <b>15</b>             |
| <b>Fee and commission income</b> .....   | <b>44</b>    | <b>34</b>    | <b>29</b>             |
| <b>Share of net (losses)/profits of associates and joint ventures accounted for using the equity method</b> .....                              | <b>7</b>     | <b>4</b>     | <b>75</b>             |
| <b>Other operating income and charges</b>  |              |              |                       |
| Impairment charge on equity investments, intangibles and other non-financial assets .....  | (45)         | (49)         | (8)                   |
| Gain on disposal of operating lease assets .....   | 8            | 231          | (97)                  |
| Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale ..... | 6            | 141          | (96)                  |
| Net operating lease income .....   | 879          | 603          | 46                    |
| Provisions for impairment, write-offs and collective allowance for credit losses .....   | (123)        | (103)        | 19                    |
| Other income .....   | 39           | 3            | *                     |
| <b>Total other operating income and charges</b> .....  | <b>764</b>   | <b>826</b>   | <b>(8)</b>            |
| <b>Internal management revenue/(charge)<sup>2</sup></b> .....  | <b>60</b>    | <b>(4)</b>   | <b>*</b>              |
| <b>Net operating income</b> .....  | <b>1,709</b> | <b>1,585</b> | <b>8</b>              |
| <b>Operating expenses</b>  |              |              |                       |
| Employment expenses .....  | (236)        | (210)        | 12                    |
| Brokerage, commission and trading-related expenses .....   | (7)          | (11)         | (36)                  |
| Other operating expenses .....   | (346)        | (256)        | 35                    |
| <b>Total operating expenses</b> .....  | <b>(589)</b> | <b>(477)</b> | <b>23</b>             |
| <b>Non-controlling interests</b> .....   | <b>1</b>     | <b>-</b>     | <b>*</b>              |
| <b>Net profit contribution</b> .....   | <b>1,121</b> | <b>1,108</b> | <b>1</b>              |
| <b>Other metrics</b>   |              |              |                       |
| Loan and finance lease portfolio (A\$ billion) <sup>3</sup> .....  | 28.7         | 22.3         | 29                    |
| Operating lease portfolio (A\$ billion) .....  | 10.6         | 6.3          | 68                    |
| Headcount <sup>4</sup> .....   | 1,350        | 1,017        | 33                    |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation —Income tax”.

<sup>3</sup> Includes equity portfolio of A\$0.3 billion (FY15: A\$0.1 billion)

<sup>4</sup> Headcount at March 31, 2015 includes 149 staff who transferred with the sale of the Macquarie Equipment Finance US operations.

Corporate & Asset Finance’s net profit contribution of A\$1,121 million for the year ended March 31, 2016 increased 1% from A\$1,108 million in the prior fiscal year. The improved result was largely driven by the impact of the depreciation of the Australian dollar, the accretion of interest income on loans acquired at a discount in the Lending portfolio and the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year. These increases were partially offset by the non-recurrence of gains in the prior fiscal year on the restructure of a railcar logistics operating lease facility, the disposal of the North American railcar operating lease portfolio and the sale of the Macquarie Equipment Finance United States Operations.

**Net interest and trading income**

Net interest and trading income in Corporate & Asset Finance predominantly relates to net income from the loan and finance lease portfolio, partially offset by the funding costs associated with operating lease portfolio.



Net interest and trading income of A\$834 million for the year ended March 31, 2016 increased 15% from A\$725 million in the prior fiscal year. The increase was mainly due to the impact of the depreciation of the Australian dollar, the growth in the motor vehicle portfolio due to the acquisition of the Esanda Portfolio in November 2015, the accretion of interest income on loans acquired at a discount in the Lending portfolio and lower funding costs as a result of the sale of the North American railcar operating lease portfolio in January 2015.

The impact of these was partially offset by increased funding costs driven by the growth of the aircraft operating lease portfolio and lower income due to the sale of the Macquarie Equipment Finance United States operations in March 2015.

The loan and finance lease portfolio of A\$28.7 billion at March 31, 2016 increased 29% from A\$22.3 billion in the prior fiscal year mainly driven by the acquisition of the Esanda Portfolio in November 2015.

### **Other operating income and charges**

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

Impairment charge on equity investments, intangibles and other non-financial assets of A\$45 million for the year ended March 31, 2016 largely reflected the impairment of Aviation assets impacted by the decline in the oil price. The prior fiscal year included the impairment of a number of aircraft in the Aviation portfolio and the write-off of certain assets realized through the restructure of a railcar logistics operating lease facility.

#### *Gain on disposal of operating lease assets*

Gain on disposal of operating lease assets in the prior fiscal year of A\$231 million predominantly related to the gain on disposal of the North American railcar operating lease portfolio in January 2015, gains on the sale of aircraft and the restructure of a railcar logistics operating lease facility in August 2014 resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable. There were no significant transactions during the year ended March 31, 2016.

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

Gain on acquiring, disposing, reclassification and change in ownership interest in subsidiaries, associates and businesses held for sale of A\$141 million in the prior fiscal year primarily related to the gain on the sale of the Macquarie Equipment Finance United States operations in March 2015. There were no significant transactions during the year ended March 31, 2016.

#### *Net operating lease income*

Net operating lease income of A\$879 million for the year ended March 31, 2016 increased 46% from A\$603 million in the prior fiscal year. The increase was primarily due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year and the impact of the depreciation of the Australian dollar, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

The operating lease portfolio was A\$10.6 billion at March 31, 2016, an increase of 68% from A\$6.3 billion at March 31, 2015, mainly due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited.

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

Provisions for impairment, write-offs and collective allowance for credit losses of A\$123 million increased 19% from A\$103 million in the prior fiscal year due to portfolio growth primarily from the acquisition of the Esanda Portfolio in November 2015 and the underperformance of certain credits. This was partially offset by reduced collective provisions reflecting the changing mix of assets in the lending and finance lease portfolios and repayments during the year.

*Other income*

Other income of A\$39 million for the year ended March 31, 2016 increased significantly from A\$3 million in the prior fiscal year primarily due to ancillary financing and service income earned on plant and equipment acquired during the year.

**Operating expenses**

Total operating expenses of A\$589 million for the year ended March 31, 2016 increased 23% from A\$477 million in the prior fiscal year. This was primarily driven by the costs of the acquisition and management of the Esanda Portfolio in November 2015 and the impact of the depreciation of the Australian dollar on offshore expenses. These were partially offset by a reduction in operating expenses due to the sale of Macquarie Equipment Finance United States operations in March 2015.

*Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)*

|   | Year ended     |              | Movement <sup>1</sup> |
|---|----------------|--------------|-----------------------|
|   | Mar 16         | Mar 15       |                       |
|   | A\$m           | A\$m         | %                     |
| <b>Net interest and trading income</b>  |                |              |                       |
| Commodities <sup>2</sup> .....  | 1,309          | 1,154        | 13                    |
| Credit, interest rates and foreign exchange .....   | 364            | 481          | (24)                  |
| <b>Net interest and trading income</b> .....  | <b>1,673</b>   | <b>1,635</b> | <b>2</b>              |
| <b>Fee and commission income</b>  |                |              |                       |
| Brokerage and commissions .....   | 136            | 111          | 23                    |
| Other fee and commission income.....  | 64             | 237          | (73)                  |
| <b>Total fee and commission income</b> .....  | <b>200</b>     | <b>348</b>   | <b>(43)</b>           |
| <b>Share of net (losses)/profits of associates and joint ventures accounted for using the equity method</b> ..... | <b>5</b>       | <b>(1)</b>   | <b>*</b>              |
| <b>Other operating income and charges</b>   |                |              |                       |
| Impairment charge on equity investments, intangibles and other non-financial assets .....                         | (44)           | (99)         | (56)                  |
| Provisions for impairment and collective allowance for credit losses .....  | (284)          | (235)        | 21                    |
| Other income .....  | 45             | 72           | (38)                  |
| <b>Total other operating (charges)/income</b> .....   | <b>(283)</b>   | <b>(262)</b> | <b>8</b>              |
| <b>Internal management revenue/(charge)</b> <sup>3</sup> .....  | <b>2</b>       | <b>(10)</b>  | <b>*</b>              |
| <b>Net operating income</b> .....   | <b>1,597</b>   | <b>1,710</b> | <b>(7)</b>            |
| <b>Operating expenses</b> .....   |                |              |                       |
| Employment expenses .....   | (292)          | (239)        | 22                    |
| Brokerage, commission and trading-related expenses .....  | (234)          | (255)        | (8)                   |
| Other operating expenses.....   | (539)          | (448)        | 20                    |
| <b>Total operating expenses</b> .....   | <b>(1,065)</b> | <b>(942)</b> | <b>13</b>             |
| <b>Net profit contribution</b> .....  | <b>532</b>     | <b>768</b>   | <b>(31)</b>           |
| <b>Other metrics</b>  |                |              |                       |
| Headcount.....  | 795            | 828          | (4)                   |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

<sup>3</sup> See “— Basis of preparation — Income tax”.

Commodities & Financial Markets’ net profit contribution for the year ended March 31, 2016 was A\$532 million, a decrease of 31% from A\$768 million in the prior fiscal year driven by a decline in trading activity in the fourth quarter. The result for the year reflected the impact of the depreciation of the Australian dollar, a strong contribution from the commodities platform, challenging credit market conditions particularly in the northern hemisphere and non-recurrence of fee income from the Freeport LNG Terminal transaction recognized in the prior fiscal year.

## **Net interest and trading income**

### *Commodities trading income*

Net interest and trading income from commodities of A\$1,309 million for the year ended March 31, 2016 increased 13% from A\$1,154 million in the prior fiscal year.

The Energy Markets business remained a significant contributor with revenues generated across its platform particularly in North American Gas and Power and Global Oil. Continued volatility in global commodity prices underpinned increased customer flow, notably in North American Gas and Power, which resulted in increased income compared with the prior fiscal year.

Income from activities in other commodity markets, including base metals, precious metals and agricultural commodities, benefited from increased client activity and continued business growth compared to the prior fiscal year.

Lending and financing income was down on the prior fiscal year. The prior fiscal year included higher income in relation to storage costs previously paid by Macquarie and recovered from clients as higher financing margins. For accounting purposes, the associated storage costs are recognized in brokerage, commission and trading-related expenses, which has the effect of grossing up both the income and the expense lines. Excluding the effect of the change in storage arrangements with clients, the underlying result was broadly in line with the prior fiscal year with the impact of the depreciation of the Australian dollar offset by a decrease in physical metals financing driven by reduced customer appetite.

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

Net interest and trading income from credit, interest rates and foreign exchange products of A\$364 million for the year ended March 31, 2016 decreased 24% from A\$481 million in the prior fiscal year.

Reduced operating income in the current year was largely driven by challenging market conditions, particularly in high yield credit markets and asset backed securitizations, and subdued client risk appetite in secondary markets, which were influenced by a sell-off in United States credit markets. This was partially offset by strong client flows in foreign exchange and interest rates markets due to ongoing market volatility.

## **Brokerage, commissions and other fee income**

Brokerage, commissions and other fee income of A\$200 million for the year ended March 31, 2016 decreased 43% from A\$348 million in the prior fiscal year mainly due to the non-recurrence of fee income from the Freeport LNG Terminal transaction recognized in the prior fiscal year, partly offset by increased market volumes traded in offshore commodity futures markets driven by ongoing volatility.

## **Other operating income and charges**

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

Impairment charges on equity investments, intangibles and other non-financial assets of A\$44 million for the year ended March 31, 2016 decreased 56% from A\$99 million in the prior fiscal year, mainly due to the improved performance of the residual equity investment portfolio.

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

Provisions for impairment and collective allowance for credit losses of A\$284 million for the year ended March 31, 2016 increased 21% from A\$235 million in the prior fiscal year due to the underperformance of certain commodity related loans.

#### *Other income*

Other income of A\$45 million for the year ended March 31, 2016 decreased 38% from A\$72 million in the prior fiscal year due to a decrease in gains recognized on the sale of equity investments.

#### **Operating expenses**

Total operating expenses of A\$1,065 million for the year ended March 31, 2016, increased 13% from A\$942 million in the prior fiscal year.

#### *Employment expenses*

Employment expenses of A\$292 million for the year ended March 31, 2016 increased 22% from A\$239 million in the prior fiscal year, largely due to the impact of the depreciation of the Australian dollar on offshore expenses.

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

Brokerage, commission and trading-related expenses includes fees paid in relation to trading-related activities and storage costs of physical metals and other commodities. On certain client financing arrangements, storage costs are paid by Macquarie and recovered from clients as higher financing margins, which is included within commodities lending and financing income. Brokerage, commission and trading-related expenses of A\$234 million for the year ended March 31, 2016 decreased 8% from A\$255 million in the prior fiscal year mainly due a reduction in storage costs for physical commodities as a result of a change in storage arrangements, with clients now largely paying for storage costs directly. This was partially offset by the impact of the depreciation of the Australian dollar on offshore expenses.

#### *Other operating expenses*

Other operating expenses of A\$539 million for the year ended March 31, 2016 increased 20% from A\$448 million in the prior fiscal year, mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and business operations.

*Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)*

|  | Year ended   |              | Movement <sup>1</sup> |
|--|--------------|--------------|-----------------------|
|  | Mar 16       | Mar 15       |                       |
|  | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b> .....   | <b>519</b>   | <b>316</b>   | <b>64</b>             |
| <b>Fee and commission income</b>   |              |              |                       |
| Brokerage and commissions .....  | 200          | 164          | 22                    |
| Other fee and commission expense .....   | (71)         | (105)        | (32)                  |
| <b>Total fee and commission income</b> .....   | <b>129</b>   | <b>59</b>    | <b>119</b>            |
| <b>Share of net profits of associates and joint ventures accounted for using the equity method</b> ..... | -            | -            | -                     |
| <b>Other operating (charges)/income</b> .....  | <b>(1)</b>   | <b>(3)</b>   | <b>(67)</b>           |
| <b>Internal management (charge)/revenue</b> <sup>2</sup> .....   | <b>(4)</b>   | <b>(4)</b>   | -                     |
| <b>Net operating income</b> .....  | <b>643</b>   | <b>368</b>   | <b>75</b>             |
| <b>Operating expenses</b>  |              |              |                       |
| Employment expenses .....  | (47)         | (46)         | 2                     |
| Brokerage, commission and trading-related expenses .....   | (167)        | (117)        | 43                    |
| Other operating expenses .....   | (229)        | (204)        | 12                    |
| <b>Total operating expenses</b> .....  | <b>(443)</b> | <b>(367)</b> | <b>21</b>             |
| <b>Net profit contribution</b> .....   | <b>200</b>   | <b>1</b>     | *                     |
| <b>Other metrics</b>   |              |              |                       |
| Headcount .....  | 158          | 152          | 4                     |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Income tax”.

Macquarie Securities’ net profit contribution of A\$200 million for the year ended March 31, 2016 increased significantly from A\$1 million in the prior fiscal year. In the first half of the year, Macquarie Securities benefited from favorable market and trading conditions in Australia and Asia, driving strong growth in trading revenues. In the second half of the year, market concerns regarding increasing United States interest rates, continued falls in commodity prices and a Chinese-led slowdown in global growth negatively impacted the levels of client activity and trading opportunities within markets. Operating expenses increased largely due to the increase in volume of trading-related activity and the impact of the depreciation of the Australian dollar.

### **Net interest and trading income**

Net interest and trading income of A\$519 million for the year ended March 31, 2016 increased significantly from A\$316 million in the prior fiscal year.

In the first half of the year, the business benefitted from increased market volatility, particularly in China, while in the second half of the year, trading opportunities were limited as regulatory changes in China and macro concerns impacted equity markets and liquidity.

### **Total fee and commission income**

#### *Brokerage and commissions*

Brokerage and commissions income of A\$200 million for the year ended March 31, 2016 increased 22% from A\$164 million in the prior fiscal year. The increase was mainly driven by the impact of the depreciation of the Australian dollar and improved market turnover in Australia and Asia.

*Other fee and commission expense*

Other fee and commission expense, which mainly consists of tax transfer pricing charges, of A\$71 million for the year ended March 31, 2016 decreased 32% from A\$105 million in the prior fiscal year. During the year Macquarie Securities Group implemented a revised tax transfer pricing methodology, which resulted in a reclassification of expenses to trading income. This was partly offset by lower income due to a reduction in client stock borrowing activity in Europe.

**Operating expenses**

Total operating expenses of A\$443 million for the year ended March 31, 2016 increased 21% from A\$367 million in the prior fiscal year largely driven by an increase in trading-related expenses and the impact of the depreciation of the Australian dollar on offshore expenses, partly offset by the non-recurrence of restructuring costs recognized in the prior fiscal year associated with the exit from the Structured Products business.

## Corporate

|   | Year ended   |              | Movement <sup>1</sup> |
|---|--------------|--------------|-----------------------|
|   | Mar 16       | Mar 15       |                       |
|   | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b> .....  | <b>216</b>   | <b>258</b>   | <b>(16)</b>           |
| <b>Fee and commission expense</b> .....   | <b>(21)</b>  | <b>(159)</b> | <b>(87)</b>           |
| <b>Share of net losses of associates and joint ventures accounted for using the equity method</b> ..... | <b>9</b>     | <b>(22)</b>  | <b>*</b>              |
| <b>Other operating income and charges</b> .....   |              |              |                       |
| Net (losses)/gains on sale and reclassification of debt and equity securities .....                     | (28)         | 26           | *                     |
| Impairment charge on investments, intangibles and other non-financial assets .....                      | -            | 5            | (100)                 |
| Provisions for impairment and collective allowance for credit losses .....                              | (56)         | (29)         | 93                    |
| Other expense .....   | (15)         | (21)         | (29)                  |
| <b>Total other operating (charges)/income</b> .....   | <b>(99)</b>  | <b>(19)</b>  | <b>*</b>              |
| <b>Internal management revenue/(charge)<sup>2</sup></b> .....   | <b>(64)</b>  | <b>16</b>    | <b>*</b>              |
| <b>Net operating (loss)/income</b> .....  | <b>41</b>    | <b>74</b>    | <b>(45)</b>           |
| <b>Operating expenses</b>   |              |              |                       |
| Employment expenses .....   | (479)        | (578)        | (17)                  |
| Brokerage, commission and trading-related expenses .....  | (3)          | (4)          | (25)                  |
| Other operating expenses .....  | (98)         | (228)        | (57)                  |
| <b>Total operating expenses</b> .....   | <b>(580)</b> | <b>(810)</b> | <b>(28)</b>           |
| <b>Net (loss)/profit contribution</b> .....   | <b>(539)</b> | <b>(736)</b> | <b>(27)</b>           |
| <b>Other metrics</b>  |              |              |                       |
| Headcount .....   | 40           | 45           | (11)                  |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Income tax”.

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.

### Net interest and trading income

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for the MBL Group, earnings on capital 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 A\$216 million for the year ended March 31, 2016 decreased 16% from A\$258 million in the prior fiscal year, primarily due to a change in the approach to recovering Group Treasury operating costs from an increased internal funding rate in the prior fiscal year to a direct recovery through operating expenses in the current year, partially offset by increased income from higher capital balances.

### 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 Banking Group and internal transactions between the Banking and Non-Banking Group.



Fee and commission expense of A\$21 million for the year ended March 31, 2016 decreased 87% from A\$159 million in the prior fiscal year, primarily due to the non-recurrence of internal transactions recognized in the prior fiscal year.

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

Share of net profits/(losses) of associates and joint ventures was a net profit of A\$9 million for the year ended March 31, 2016 compared to a net loss of A\$22 million in the prior fiscal year. The movement reflects changes in the underlying performance of central investments, which include certain legacy and other non-core assets.

#### **Other operating income and charges**

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

Net losses on sale and reclassification of debt and equity securities of A\$28 million for the year ended March 31, 2016, compared to net gains of A\$26 million in the prior fiscal year. The loss in the current year largely resulted from the reclassification of legacy assets that are no longer held for strategic purposes. The prior fiscal year included gains from the disposal of securities undertaken in managing the MBL Group's liquidity and gains on disposal of legacy investments.

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

Provisions for impairment and collective allowance for credit losses of A\$56 million for the year ended March 31, 2016 increased from A\$29 million in the prior fiscal year mainly due to increased provisions on assets that are no longer held for strategic purposes.

#### **Operating expenses**

Total operating expenses of A\$580 million for the year ended March 31, 2016 decreased 28% from A\$810 million in the prior fiscal year.

##### *Employment expenses*

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

Employment expenses of A\$479 million for the year ended March 31, 2016 decreased 17% from A\$578 million in the prior fiscal year primarily due to retention levels, a decrease in fair value adjustments to Directors' Profit Share liabilities and lower headcount.

##### *Other operating expenses*

Other operating expenses of A\$98 million for the year ended March 31, 2016 decreased from A\$228 million in the prior fiscal year. The decrease primarily reflected a reduction in recoveries due to a change in the methodology for recovering the costs of central service groups between the MBL Group and the Non-Banking Group and the impact of a change in the approach to recovering Group Treasury operating costs from an increased internal funding rate in the prior fiscal year to a direct recovery through operating expenses in the current year.

## Year ended March 31, 2015 compared to year ended March 31, 2014

Investors should note that during the year ended March 31, 2016, MBL Group restated the comparative information for the year ended March 31, 2015 to reflect the Macquarie Investment Management (MIM) business as discontinued operations, but was not required to restate the financial statements for earlier fiscal years. See “— Presentation” and “Financial Information Presentation” for further information.

### Results overview

|  | Year ended     |                | Movement<br>% |
|--|----------------|----------------|---------------|
|  | Mar 15<br>A\$m | Mar 14<br>A\$m |               |
| <b>Financial performance summary</b>   |                |                |               |
| Net interest income .....  | 2,011          | 1,719          | 17            |
| Fee and commission income.....   | 894            | 778            | 15            |
| Net trading income .....   | 1,860          | 1,608          | 16            |
| Share of net profits of associates and joint ventures accounted for using<br>the equity method ..... | (17)           | 18             | *             |
| Other operating income and charges .....   | 547            | 455            | 20            |
| <b>Net operating income</b> .....  | <b>5,295</b>   | <b>4,578</b>   | <b>16</b>     |
| Employment expenses .....  | (1,446)        | (1,351)        | 9             |
| Brokerage, commission and trading-related expenses .....   | (601)          | (565)          | 6             |
| Occupancy expenses.....  | (120)          | (124)          | (3)           |
| Non-salary technology expenses .....   | (110)          | (93)           | 18            |
| Other operating expenses.....  | (1,480)        | (1,271)        | 16            |
| <b>Total operating expenses</b> .....  | <b>(3,777)</b> | <b>(3,404)</b> | <b>11</b>     |
| Operating profit before income tax.....  | 1,518          | 1,174          | 29            |
| Income tax expense .....   | (589)          | (538)          | 9             |
| Profit from ordinary activities after income tax.....  | 929            | 636            | 46            |
| Profit from discontinued operations (net of income tax) .....  | 190            | 138            | 38            |
| Profit from ordinary activities and discontinued operations after income<br>tax .....                | 1,119          | 774            | 45            |
| Profit attributable to non-controlling interests.....  | (5)            | (4)            | 25            |
| <b>Profit attributable to equity holders of Macquarie Bank Limited</b> .....                         | <b>1,114</b>   | <b>770</b>     | <b>45</b>     |
| Distributions paid or provided for on Macquarie<br>Income Securities .....                           | (18)           | (18)           | -             |
| <b>Profit attributable to ordinary equity holders of<br/>Macquarie Bank Limited</b> .....            | <b>1,096</b>   | <b>752</b>     | <b>46</b>     |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Profit attributable to ordinary equity holders of A\$1,096 million for the year ended March 31, increased 46% from A\$752 million in the prior fiscal year. This result represents profit from continuing operations of A\$906 million (compared to A\$614 million in the prior fiscal year) and profit from discontinued operations of A\$190 million (compared to A\$138 million in the prior fiscal year).

MBL’s annuity style businesses – Macquarie Asset Management, Corporate & Asset Finance and Banking & Financial Services – generated a combined net profit contribution for the year ended March 31, 2015 of A\$1,485 million, an increase of 30% on the prior fiscal year. Macquarie Asset Management benefited from increased activity in the Macquarie Specialised Investment Solutions (MSIS) business, while Corporate & Asset Finance’s higher net profit contribution was largely driven by increased loan and lease volumes together with gains

on the disposals of the U.S. equipment information technology equipment leasing business and operating lease assets. Banking & Financial Services' reported an improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits, and the wrap platform.

MBL's capital markets facing businesses – Macquarie Securities and Commodities & Financial Markets – delivered a combined net profit contribution for the year ended March 31, 2015 of A\$769 million, an increase of 16% on the prior fiscal year. Macquarie Securities' net profit contribution was down on the prior fiscal year as increased income, compared to the prior fiscal year, from improved trading opportunities was offset by increased operating expenses driven by additional regulatory compliance requirements and restructuring costs associated with exiting Structured Products during the year. Commodities & Financial Markets' net profit contribution was mainly driven by the continued strong performance of its commodities businesses and increased income across interest rates and foreign exchange platforms.

Net operating income of A\$5,295 million for the year ended March 31, 2015 increased 16% from A\$4,578 million in the prior fiscal year. Key drivers of the changes from the prior fiscal year were:

- A 16% increase in combined net interest and trading income to A\$3,871 million for the year ended March 31, 2015 from A\$3,327 million in the prior fiscal year. Most operating groups contributed to the increase, with key drivers of the result being continued strong performance of commodities businesses in Commodities & Financial Markets, increased volatility in foreign exchange and interest rate markets, particularly in the second half of the year, resulting in increased client volumes and activity in Commodities & Financial Markets compared with the prior fiscal year, and loan portfolio growth in Corporate & Asset Finance and Banking and Financial Services.
- A 15% increase in fee and commission income to A\$894 million for the year ended March 31, 2015 from A\$778 million in the prior fiscal year primarily due to a fee from Freeport LNG Terminal in Commodities & Financial Markets, and higher income in Banking and Financial Services resulting from the acquisition of the Woolworths credit card portfolio in May 2014 and increased platform commissions from higher assets under administration on the wrap platform.
- A 20% increase in other operating income and charges to A\$547 million for the year ended March 31, 2015 from A\$455 million in the prior fiscal year. The increase was due to:
  - gains on disposal of operating lease assets A\$231 million for the year ended March 31, 2015, up from A\$2 million in the prior fiscal year mainly due to gains in Corporate & Asset Finance on disposal of the North American railcar operating lease portfolio in January 2015 and the restructure of an unrelated railcar logistics operating lease facility;
  - gains on acquiring, disposing and change in ownership interest in subsidiaries and associates of A\$144 million, up from A\$14 million in the prior fiscal year primarily due to the sale of CAF's U.S. information technology equipment leasing business in March 2015; and
  - an increase of 10% in net operating lease income to A\$585 million for the year ended March 31, 2015 from A\$531 million in the prior fiscal year primarily due to favorable currency movements and acquisitions in Corporate & Asset Finance's Aviation portfolio; partially offset by
  - an increase of 89% in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to A\$407 million for the year ended March 31, 2015 from A\$215 million in the prior fiscal year primarily due to higher provisions in Commodities & Financial Markets, which was mainly due to the underperformance of certain credits and the downward movement in certain commodity prices, additional collective provisions in Corporate & Asset Finance reflecting portfolio growth and the changing mix of assets in the lending and finance leasing portfolios and an increase to the collective provision central management overlay in Corporate to account for changes in current economic conditions.

Total operating expenses increased 11% from A\$3,404 million in the prior fiscal year to A\$3,777 million for the year ended March 31, 2015 mainly due to the following:

- a 9% increase in employment expenses to A\$1,466 million for the year ended March 31, 2015 from A\$1,351 million in the prior fiscal year primarily due to higher staff compensation resulting from the improved performance of the MBL Group and the impact of the depreciation of the Australian dollar on offshore expenses; and
- a 16% increase in other operating expenses from A\$1,271 million in the prior fiscal year to A\$1,480 million for the year ended March 31, 2015 largely driven by increased activity across the MBL Group, the impact of the depreciation of the Australian dollar on offshore expenses and transaction related expenses for business and asset disposals and acquisitions in Corporate & Asset Finance.

Income tax expense for the year ended March 31, 2015 was A\$589 million, up 9% from A\$538 million in the prior fiscal year, resulting in an effective tax rate of 38.9%. See “— Results analysis — Income tax expense” for further information.

### ***Discontinued operations***

Profit from discontinued operations (net of income tax) of A\$190 million for the year ended March 31, 2015 increased 38% from A\$138 million in the prior fiscal year. This represents profit from the Macquarie Investment Management (MIM) business and has been included as discontinued operations as the economic risks and rewards and control of the business were transferred at fair value on April 15, 2015 to Macquarie Financial Holdings Limited (MFHL) and its subsidiaries. See “—Presentation” and “Macquarie Bank Limited—Overview—Recent Developments.”

MIM’s result in the current fiscal year was mainly driven by base fee income, which was impacted by net inflows into higher fee earning products as well as favorable currency and market movements, partially offset by the impact of the formation of the Jackson Square Partners (JSP) joint venture and the management buyout of the MIM Private Markets business. The result also included gains on the JSP and MIM Private Markets transactions and fees earned from the provision of transitional services to the new owners of these businesses. MIM’s operating expenses were primarily driven by additional sub-advisory expenses in the Delaware business as a result of the JSP transaction and the impact of the depreciation of the Australian dollar on offshore expenses.

## Results analysis

MBL Group presents the information below relating to our financial results on a consolidated MBL Group basis.

### *Net interest and trading income*

|  | Year ended   |              | Movement  |
|--|--------------|--------------|-----------|
|  | Mar 15       | Mar 14       |           |
|  | A\$m         | A\$m         | %         |
| Net interest income .....                    | 2,011        | 1,719        | 17        |
| Net trading income .....                     | 1,860        | 1,608        | 16        |
| <b>Net interest and trading income .....</b> | <b>3,871</b> | <b>3,327</b> | <b>16</b> |

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 predominantly comprising gains and losses relating to trading and liabilities, realized and unrealized fair value changes and foreign exchange movements.

For businesses that predominantly earn income from trading activities (Macquarie Securities and Commodities & Financial Markets), the relative contribution of net interest income and trading income from trading activities can vary from period to period depending on the underlying trading strategies undertaken by Macquarie and its clients.

For businesses that predominantly earn income from lending activities (Corporate & Asset Finance and Banking & Financial Services), 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 recognized at a total consolidated level; however, for segment reporting derivatives are accrual accounted in the Operating Groups and changes in fair value are recognized on consolidation.

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, in Corporate & Asset Finance, interest rate swaps are entered into to hedge the interest rate risk associated with finance leases. The finance lease interest income and associated funding costs are recognized in net interest income but the related swap is recognized 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 drivers.

See “— Segment analysis — Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)” and “— Segment analysis — Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)” for further discussion of MBL’s trading activities.

|   | Year ended   |              | Movement  |
|---|--------------|--------------|-----------|
|   | Mar 15       | Mar 14       |           |
|   | A\$m         | A\$m         | %         |
| Macquarie Asset Management <sup>1</sup>           | 112          | 86           | 30        |
| Corporate & Asset Finance.....                    | 725          | 648          | 12        |
| Banking & Financial Services .....                | 825          | 739          | 12        |
| Macquarie Securities <sup>2</sup> .....           | 316          | 231          | 37        |
| Commodities & Financial Markets <sup>3</sup>      |              |              |           |
| Commodities <sup>4</sup> .....                    | 1,115        | 1,124        | (1)       |
| Credit, interest rates and foreign exchange ..... | 520          | 375          | 39        |
| Corporate <sup>5</sup>                            | 258          | 124          | 108       |
| <b>Net interest and trading income .....</b>      | <b>3,871</b> | <b>3,327</b> | <b>16</b> |

<sup>1</sup> Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division and Macquarie Investment Management divisions that are part of the Non-Banking Group.

<sup>2</sup> Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

<sup>3</sup> Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

<sup>4</sup> Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

<sup>5</sup> The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

Net interest and trading income of A\$3,871 million for the year ended March 31, 2015 increased 16% from A\$3,327 million in the prior fiscal year. All operating groups contributed to the increase with key drivers being improved trading conditions for certain businesses in Commodities & Financial Markets, portfolio growth in Corporate & Asset Finance and growth in lending and deposit volumes in Banking and Financial Services.

*Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets and Macquarie Investment Management divisions)*

Net interest and trading income in Macquarie Asset Management includes income on specialized retail products and interest income from the provision of financing facilities to external funds and their investors.

Net interest and trading income of A\$112 million for the year ended March 31, 2015 increased 30% from A\$86 million in the prior fiscal year primarily due to increased activity in the Macquarie Specialised Investment Solutions (MSIS) business.

*Corporate & Asset Finance*

Net interest and trading income in Corporate & Asset Finance predominantly relates to income from the corporate lending and asset financing portfolios, offset by the funding costs associated with operating lease portfolios.

Net interest and trading income of A\$725 million for the year ended March 31, 2015 increased 12% from A\$648 million in the prior fiscal year. The increase was mainly due to portfolio growth and the accretion of interest income on loans acquired at a discount in the Lending portfolio, which were partially offset by internal break costs associated with the sales of the North American railcar operating lease portfolio in January 2015 and the Macquarie Equipment Finance U.S. operations in March 2015.

The loan and finance lease portfolios of A\$22.2 billion at March 31, 2015 increased 13% from A\$19.6 billion in the prior fiscal year driven by growth in the Lending and Leasing portfolios as a result of acquisitions and the

favorable impact of the depreciation of the Australian dollar on non-Australian dollar denominated portfolios, partially offset by the sale of Macquarie Equipment Finance U.S. operations.

#### *Banking & Financial Services*

Net interest and trading income in Banking & Financial Services relates to interest income earned from the loan portfolio that primarily comprises residential mortgages in Australia, Canada and the United States; as well as loans to Australian businesses, insurance premium funding and credit cards. Banking & Financial Services also generates income from deposits by way of a deposit premium paid to Banking & Financial Services by Group Treasury which use the deposits as a source of funding for the Banking Group.

Net interest and trading income of A\$825 million for the year ended March 31, 2015 increased 12% from A\$739 million in the prior fiscal year primarily due to growth in lending and deposit volumes, including:

- a 44% increase in Australian mortgage volumes from A\$17.0 billion at March 31, 2014 to A\$24.5 billion at March 31, 2015, including acquisitions of residential mortgage portfolios of A\$2.5 billion during the year;
- a 27% increase in business lending volumes from A\$4.1 billion at March 31, 2014 to A\$5.2 billion at March 31, 2015;
- a 12% increase in retail deposits from A\$33.3 billion at March 31, 2014 to A\$37.3 billion at March 31, 2015; and
- a 100% increase in credit card volumes from A\$0.3 billion at March 31, 2014 to A\$0.6 billion at March 31, 2015 driven by the acquisition of the Woolworths credit card portfolio in May 2014.

The increased net interest and trading income from volume growth was partially offset by lower deposit and lending margins. Average net interest margins on the Australian mortgages portfolio decreased as loans with higher margins continued to run-off.

The legacy loan portfolios, which are primarily comprised of residential mortgages in Canada and the United States, are in run-off and closed at a combined A\$3.8 billion at March 31, 2015, down 31% from A\$5.5 billion at March 31, 2014.

#### *Macquarie Securities*

Net interest and trading income in Macquarie Securities relates to trading income from institutional and retail equity derivative products and stock borrow and lending activities.

Net interest and trading income of A\$316 million for the year ended March 31, 2015 increased 37% from A\$231 million in the prior fiscal year. The increase was mainly due to improved trading opportunities driven by increased market volatility in certain emerging markets, particularly China.

#### *Commodities & Financial Markets*

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

#### *Commodities trading income*

Commodities net interest and trading income of A\$1,115 million for the year ended March 31, 2015 decreased 1% from A\$1,124 million in the prior fiscal year.

The Energy Markets business was the largest contributor with revenues generated across its global platform driven by strong customer flow off the back of price volatility, particularly in the Global Oil and North American

Gas businesses, together with continued growth in physical activities, which also benefited from volatility across most commodities.

Base metals markets saw increased client activity, while depressed prices in precious metals markets led to lower levels of client activity.

Financing income was down on the prior year, mainly driven by the physical metals financing activities. This was offset by the reduction of associated storage costs that, for accounting purposes, are recognized in brokerage, commission and trading-related expenses. Overall, net income from physical metals financing activities is broadly in line with the prior year when considering associated storage costs.

*Credit, interest rates and foreign exchange trading income*

Net interest and trading income from credit, interest rates and foreign exchange products of A\$520 million for the year ended March 31, 2015 increased 39% from A\$375 million in the prior fiscal year.

Increased volatility in foreign exchange and interest rate markets, particularly in the second half of the year, led to increased client volumes. This was partially offset by lower levels of client activity in U.S. credit markets.

*Corporate*

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for the MBL Group, earnings on capital 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 A\$258 million for the year ended March 31, 2015 increased significantly from A\$124 million in the prior fiscal year mainly due to an increase in income from internal funding arrangements as a result of business growth across the MBL Group, the refinancing of higher margin debt and favorable nontrading derivative volatility during the year. The Corporate segment is exposed to accounting volatility in relation to economically hedged positions that do not qualify for hedge accounting.

*Fee and commission income*

|  | Year ended     |                | Movement<br>% |
|--|----------------|----------------|---------------|
|  | Mar 15<br>A\$m | Mar 14<br>A\$m |               |
| Base fees .....  | 39             | 47             | (17)          |
| Performance fees .....   | -              | -              | -             |
| Mergers and acquisitions, advisory and underwriting fees ..... | 43             | 39             | 10            |
| Brokerage and commissions .....                                | 408            | 465            | (12)          |
| Other fee and commission income.....                           | 404            | 227            | 78            |
| <b>Total fee and commission income.....</b>                    | <b>894</b>     | <b>778</b>     | <b>15</b>     |

*Base fees*

Base fees of A\$39 million for the year ended March 31, 2015 decreased 17% from A\$47 million in the prior fiscal year. The decrease was mainly due to the loss of income as a result of the sale of Macquarie Private Wealth Canada in November 2013.



### *Brokerage and commissions*

Brokerage and commissions income of A\$408 million for the year ended March 31, 2015 decreased 12% from A\$465 million in the prior fiscal year. The decrease was mainly due to the loss of income as a result of the sale of Macquarie Private Wealth Canada in November 2013.

### *Other fee and commission income*

Other fee and commission income of A\$404 million for the year ended March 31, 2015 increased 78% from A\$227 million in the prior fiscal year. The increase from the prior fiscal year was largely due to a fee from Freeport LNG Terminal in Commodities & Financial Markets.

Banking and Financial Services also reported higher fee income resulting from the acquisition of the Woolworths credit card portfolio in May 2014 and increased platform commissions driven by higher assets under administration on the wrap platform as a result of net inflows and positive market movements, partly offset by the loss of income as a result of the sale of Macquarie Private Wealth Canada in November 2013. Macquarie platform assets under administration closed at A\$48.0 billion on March 31, 2015, an increase of 19% from A\$40.3 billion at March 31, 2014 due to net inflows and positive market movements.

### *Share of (losses)/net profits of associates and joint ventures*

|   | Year ended  |           | Movement |
|---|-------------|-----------|----------|
|   | Mar 15      | Mar 14    |          |
|   | A\$m        | A\$m      | %        |
| <b>Share of net (losses)/profits of associates and joint ventures accounted for using the equity method</b> ..... | <b>(17)</b> | <b>18</b> | *        |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Share of net (losses) of associates and joint ventures for the year ended March 31, 2015 was A\$17 million, which compares to a profit of A\$18 million in the prior fiscal year. The movement reflects changes in the underlying performance of investments and includes lower income from investments in Commodities & Financial Markets and the Corporate segment.

### *Other operating income and charges*

|  | Year ended |            | Movement <sup>1</sup> |
|--|------------|------------|-----------------------|
|  | Mar 15     | Mar 14     |                       |
|  | A\$m       | A\$m       | %                     |
| Net gains on sale of investment securities available-for-sale .....                        | 33         | 159        | (79)                  |
| Impairment charge on investment securities available-for-sale.....                         | (54)       | (84)       | (36)                  |
| Net gains on sale of associates and joint ventures .....                                   | 38         | 9          | *                     |
| Impairment charge on interest in associates and joint ventures .....                       | (20)       | (22)       | (9)                   |
| Gain on acquiring, disposing and change in ownership interest in subsidiaries              | 144        | 14         | *                     |
| Impairment charge on intangibles and other non-financial assets .....                      | (72)       | (26)       | 177                   |
| Gain on disposal of operating lease assets   | 231        | 2          | *                     |
| Net operating lease income.....  | 585        | 531        | 10                    |
| Dividends/distributions received/receivable .....  | 27         | 27         | *                     |
| Collective allowance for credit losses (provided for)/written back during the period ..... | (84)       | (59)       | 42                    |
| Individually assessed provisions for impairment and write-offs .....                       | (323)      | (156)      | 107                   |
| Other income .....   | 42         | 60         | (30)                  |
| <b>Total other operating income and charges</b> .....                                      | <b>547</b> | <b>455</b> | <b>20</b>             |

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<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Total other operating income and charges of A\$547 million for the year ended March 31, 2015 increased 20% from A\$455 million in the prior fiscal year.

Net gains on sale of investment securities (including available-for-sale, associates and joint ventures) of A\$71 million for the year ended March 31, 2015 decreased 58% from A\$168 million in the prior fiscal year primarily due to the non-recurrence of income from the disposal of Banking & Financial Services’ investment in OzForex on its IPO in October 2013.

Impairment charges on investment securities available-for-sale, associates, joint ventures, intangibles and other non-financial assets of A\$146 million in the year ended March 31, 2015 increased 11% from A\$132 million in the prior fiscal year. The increase predominantly relates to the write-down of certain assets associated with operating leases in Corporate & Asset Finance.

Gains on acquiring, disposing and change in ownership interest in subsidiaries and associates of A\$144 million for the year ended March 31, 2015 increased significantly from A\$14 million in the prior fiscal year. The increase predominantly relates to the gain on the sale of Corporate & Asset Finance’s U.S. information technology equipment leasing business in March 2015.

Gain on disposal of operating lease assets of A\$231 million for the year ended March 31, 2015 increased significantly from A\$2 million in the prior fiscal year. The gain in the current year predominantly relates to gains in Corporate & Asset Finance on disposal of the North American railcar operating lease portfolio in January 2015, the restructure of a railcar logistics operating lease facility (resulting in the de-recognition of the operating lease assets and recognition of a finance lease receivable) and the sale of aircraft.

Net operating lease income of A\$585 million for the year ended March 31, 2015 increased 10% from A\$531 million in the prior fiscal year. The increase is broadly in line with growth of the operating lease portfolio from A\$5.7 billion at March 31, 2014 to A\$6.3 billion at March 31, 2015, which was primarily driven by the favorable impact of the depreciation of the Australian dollar on non-Australian dollar denominated assets and acquisitions in the Aviation portfolio, partially offset by the divestment of the North American railcar operating lease portfolio in January 2015.

Net charges for individually assessed provisions for impairment, write-offs and collective allowance for credit losses provided for during the fiscal year of A\$407 million for the year ended March 31, 2015 increased 89% from A\$215 million in the prior fiscal year mainly due to the underperformance of certain credits and the impact of the downward movement in certain commodity prices in Commodities & Financial Markets, increased collective provisions in Corporate & Asset Finance reflecting portfolio growth and the changing mix of assets in the lending and finance leasing portfolios, and an increase to the collective provision central management overlay in Corporate to account for changes in current economic conditions.

Other income of A\$42 million for the year ended March 31, 2015 decreased 30% from A\$60 million in the prior fiscal year, mainly due to the non-recurrence of gains from the sale of net profit interests by Commodities & Financial Markets in the prior fiscal year.

## Operating expenses

|  | Year ended     |                | Movement<br>% |
|--|----------------|----------------|---------------|
|  | Mar 15<br>A\$m | Mar 14<br>A\$m |               |
| <b>Employment expenses:</b>  |                |                |               |
| Salary and salary related costs including commissions, superannuation and performance-related profit share ..... | (1,313)        | (1,247)        | 5             |
| Share based payments.....  | (148)          | (103)          | 44            |
| (Provision for)/ reversal for long service leave and annual leave .....  | (5)            | (1)            | *             |
| <b>Total employment expenses</b> .....   | <b>(1,466)</b> | <b>(1,351)</b> | <b>9</b>      |
| Brokerage, commission and trading related expenses .....   | (601)          | (565)          | 6             |
| Occupancy expenses.....  | (120)          | (124)          | (3)           |
| Non-salary technology expenses .....   | (110)          | (93)           | 18            |
| Other operating expenses:  |                |                |               |
| Professional fees .....  | (163)          | (129)          | 26            |
| Auditor's remuneration .....   | (16)           | (16)           | -             |
| Travel and entertainment expenses .....  | (55)           | (53)           | 4             |
| Advertising and communication expenses .....   | (35)           | (35)           | -             |
| Amortization of intangibles .....  | (39)           | (38)           | 3             |
| Other expenses .....   | (1,172)        | (1,000)        | 17            |
| <b>Total other operating expenses</b> .....  | <b>(1,480)</b> | <b>(1,271)</b> | <b>16</b>     |
| <b>Total operating expenses</b> .....  | <b>(3,777)</b> | <b>(3,404)</b> | <b>11</b>     |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Total operating expenses of A\$3,777 million for the year ended March 31, 2015 increased 11% from A\$3,404 million in the prior fiscal year mainly due to the impact of the depreciation of the Australian dollar on offshore expenses and higher compensation expenses driven by the improved performance of MBL Group.

Total employment expenses of A\$1,466 million for the year ended March 31, 2015 increased 9% from A\$1,351 million in the prior fiscal year mainly reflecting higher staff compensation resulting from the improved performance of MBL Group, partly offset by the impact of the sale of Macquarie Private Wealth Canada in November 2013.

Brokerage, commission and trading related expenses of A\$601 million for the year ended March 31, 2015 increased 6% from A\$565 million in the prior fiscal year. The increase was mainly due to increased costs associated with the rewards program of the Woolworths credit card portfolio acquired by Banking & Financial Services.

Other operating expenses, which includes professional fees, auditor's remuneration, travel and entertainment, advertising and communication expenses, amortization of intangibles and other expenses, in aggregate increased 16% compared to the prior fiscal year. The increase was mainly due to increased activity across the MBL Group and transaction related expenses in Corporate & Asset Finance, including those associated with an operating lease restructure, the sales of the U.S. information technology equipment leasing business and the North American railcar operating lease portfolio, and the execution of an agreement to acquire an aircraft operating lease portfolio from AWAS Aviation Capital Limited.

## Headcount

|  | Year ended   |              | Movement     |
|--|--------------|--------------|--------------|
|  | Mar 15       | Mar 14       |              |
| <b>Headcount by operating group</b>              |              |              | %            |
| Macquarie Asset Management .....                 | 99           | 89           | 11           |
| Corporate & Asset Finance.....                   | 1,017        | 1,020        | (<1)         |
| Banking & Financial Services .....               | 2,504        | 2,419        | 4            |
| Macquarie Securities .....                       | 152          | 171          | (11)         |
| Commodities & Financial Markets.....             | 828          | 786          | 5            |
| <b>Total headcount — operating groups .....</b>  | <b>4,600</b> | <b>4,485</b> | <b>3</b>     |
| <b>Total headcount — discontinued operations</b> | <b>880</b>   | <b>924</b>   | <b>(5)</b>   |
| <b>Total headcount — Corporate.....</b>          | <b>45</b>    | <b>55</b>    | <b>(18)</b>  |
| <b>Total headcount .....</b>                     | <b>5,525</b> | <b>5,464</b> | <b>1</b>     |
| <b>Headcount by region</b>                       |              |              |              |
| Australia .....                                  | 3,537        | 3,483        | 2            |
| International:                                   |              |              |              |
| Americas.....                                    | 1,177        | 1,197        | (2)          |
| Asia.....  | 352          | 380          | (7)          |
| Europe, Middle East and Africa .....             | 459          | 404          | 14           |
| <b>Total headcount — International.....</b>      | <b>1,988</b> | <b>1,981</b> | <b>&lt;1</b> |
| <b>Total headcount .....</b>                     | <b>5,525</b> | <b>5,464</b> | <b>1</b>     |
| International headcount ratio (%) .....          | 36           | 36           |              |

Total headcount of 5,525 as at March 31, 2015 increased 1% from 5,464 as at March 31, 2014. The increase was mainly driven by business growth and technology development projects, including the development of a new Core Banking platform in Banking and Financial Services. These increases were partially offset by a reduction in Macquarie Securities' headcount driven by the decision to exit Structured Products.

## Income tax expense

|  | Year ended  |             |
|--|-------------|-------------|
|  | Mar 15      | Mar 14      |
|  | A\$m        | A\$m        |
| Operating profit before income tax.....        | 1,518       | 1,174       |
| Prima facie tax @ 30% .....                    | (455)       | (352)       |
| Income tax permanent differences .....         | (134)       | (186)       |
| Income tax expense .....                       | (589)       | (538)       |
| <b>Effective tax rate (%)<sup>1</sup>.....</b> | <b>38.9</b> | <b>46.0</b> |

<sup>1</sup> The effective tax rate is calculated on net profit before tax and after non-controlling interests. Non-controlling interests reduced net profit before tax by A\$5 million for the year ended March 31, 2015 (Year ended March 31, 2014: A\$4 million). 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 outside of Australia.

Income tax expense for the year ended March 31, 2015 was A\$589 million, up 9% from A\$538 million in the prior fiscal year with an effective tax rate of 38.9%.

The increase in income tax expense was mainly driven by a 29% increase in operating profit before income tax, from A\$1,174 million in the prior fiscal year to A\$1,518 million for the year ended March 31, 2015. This was partly offset by a 28% decrease in income tax permanent differences from A\$186 million in the prior fiscal year to A\$134 million in the year ended March 31, 2015, which was mainly due to the nature and the location of income earned during the year and reduced impact of write down of international tax assets.

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

## Segment overview

### Summary of segment results

|  | Macquarie<br>Asset<br>Management <sup>1</sup> | Banking &<br>Financial<br>Services | Commodities<br>& Financial<br>Markets <sup>2</sup> | Macquarie<br>Securities <sup>3</sup> | Corporate &<br>Asset Finance | Corporate <sup>4</sup> | Total          |
|--|---|------------------------------------|--|--------------------------------------|------------------------------|------------------------|----------------|
|  | A\$m  | A\$m                               | A\$m   | A\$m                                 | A\$m                         | A\$m                   | A\$m           |
| <b>Year ended March 31, 2015</b>   |   |                                    |  |                                      |                              |                        |                |
| Net interest and trading income.....   | 112   | 825                                | 1,635  | 316                                  | 725                          | 258                    | 3,871          |
| Fee and commission<br>income/(expense) .....   | 84  | 528                                | 348  | 59                                   | 34                           | (159)                  | 894            |
| Share of net profits/(losses) of<br>associates and JVs accounted<br>for using the equity method..... | (1)   | 3                                  | (1)  | -                                    | 4                            | (22)                   | (17)           |
| Other operating income and charges ...   | 24  | (19)                               | (262)  | (3)                                  | 826                          | (19)                   | 547            |
| Internal management<br>(charge)/revenue.....   | (1)   | 3                                  | (10)   | (4)                                  | (4)                          | 16                     | -              |
| <b>Net operating income</b> .....  | <b>218</b>                                    | <b>1,340</b>                       | <b>1,710</b>                                       | <b>368</b>                           | <b>1,585</b>                 | <b>74</b>              | <b>5,295</b>   |
| <b>Total operating expenses</b> .....  | <b>(121)</b>                                  | <b>(1,060)</b>                     | <b>(942)</b>                                       | <b>(367)</b>                         | <b>(477)</b>                 | <b>(810)</b>           | <b>(3,777)</b> |
| Profit/(loss) before tax.....  | 97  | 280                                | 768  | 1                                    | 1,108                        | (736)                  | 1,518          |
| Tax expense .....  |   |                                    |  |                                      |                              |                        | (589)          |
| Profit/(loss) attributable to non-<br>controlling interests .....                                    |   |                                    |  |                                      |                              |                        | (5)            |
| <b>Profit/(loss) attributable to equity<br/>holders</b> .....  |   |                                    |  |                                      |                              |                        | <b>924</b>     |
| Distributions paid or provided for<br>on MIS .....   |   |                                    |  |                                      |                              |                        | (18)           |
| <b>Net profit/(loss) contribution</b> .....  |   |                                    |  |                                      |                              |                        | <b>906</b>     |

<sup>1</sup> Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division that are part of the Non-Banking Group.

<sup>2</sup> Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.

<sup>3</sup> Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.

<sup>4</sup> The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

|  | Macquarie<br>Asset<br>Management <sup>1</sup> | Banking &<br>Financial<br>Services | Commodities<br>& Financial<br>Markets <sup>2</sup> | Macquarie<br>Securities <sup>3</sup> | Corporate &<br>Asset Finance | Corporate <sup>4</sup> | Total          |
|--|---|------------------------------------|--|--------------------------------------|------------------------------|------------------------|----------------|
|  | A\$m  | A\$m                               | A\$m   | A\$m                                 | A\$m                         | A\$m                   | A\$m           |
| <b>Year ended March 31, 2014</b>   |   |                                    |  |                                      |                              |                        |                |
| Net interest and trading income.....   | 86  | 739                                | 1,499  | 231                                  | 648                          | 124                    | 3,327          |
| Fee and commission<br>income/(expense) .....   | 62  | 565                                | 115  | 97                                   | 36                           | (97)                   | 778            |
| Share of net profits/(losses) of<br>associates and JVs accounted<br>for using the equity method..... | (1)   | 2                                  | 24   | -                                    | 2                            | (9)                    | 18             |
| Other operating income and charges ...   | 49  | (1)                                | (77)   | (6)                                  | 492                          | (2)                    | 455            |
| Internal management<br>revenue/(charges) .....   | 4   | 5                                  | (7)  | 1                                    | 13                           | (16)                   | -              |
| <b>Net operating income</b> .....  | <b>200</b>                                    | <b>1,310</b>                       | <b>1,554</b>                                       | <b>323</b>                           | <b>1,191</b>                 | <b>-</b>               | <b>4,578</b>   |
| <b>Total operating expenses</b> .....  | <b>(124)</b>                                  | <b>(1,060)</b>                     | <b>(911)</b>                                       | <b>(305)</b>                         | <b>(375)</b>                 | <b>(629)</b>           | <b>(3,404)</b> |
| Profit /(loss) before tax.....   | 76  | 250                                | 643  | 18                                   | 816                          | (629)                  | 1,174          |
| Tax expense .....  |   |                                    |  |                                      |                              |                        | (538)          |
| Profit/(loss) attributable to non-<br>controlling interests .....                                    |   |                                    |  |                                      |                              |                        | (4)            |
| <b>Profit/(loss) attributable to equity<br/>holders</b> .....  |   |                                    |  |                                      |                              |                        | <b>632</b>     |
| Distributions paid or provided for<br>on MIS .....   |   |                                    |  |                                      |                              |                        | (18)           |
| <b>Net profit/(loss) contribution</b> .....  |   |                                    |  |                                      |                              |                        | <b>614</b>     |

- 1 Macquarie Asset Management as reported for MBL Group excludes the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division that are part of the Non-Banking Group.
- 2 Commodities & Financial Markets as reported for MBL Group excludes certain assets of the Credit Markets business and some other less financially significant activities that are part of the Non-Banking Group.
- 3 Macquarie Securities as reported for MBL Group excludes certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions that are part of the Non-Banking Group.
- 4 The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, 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.

## ***Basis of preparation***

### ***MBL Group segments***

AASB 8 “*Operating Segments*” requires the ‘management approach’ to disclosing information about Macquarie Bank’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 income statement. The financial information disclosed relates to ordinary activities. Financial information relating to discontinued operations of the Macquarie Investment Management division is included in Note 44: Discontinued Operations and Held for Sale Disposal Groups of the 2016 MBL Financial Report. See “—Presentation.”

For internal reporting, performance measurement and risk management purposes, MBL Group is divided into five operating groups and a corporate segment. These segments have been set up based on the different core products and services offered. The operating groups comprise:

- Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities);
- Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions);
- Banking & Financial Services;
- Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); and
- Corporate & Asset Finance.

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 Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

All transactions and transfers between segments are generally determined on an arm’s length basis and are included within the relevant categories of income. These transactions eliminate on aggregation/consolidation.

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

### ***Internal funding arrangements***

Operating groups are fully debt funded. Group Treasury has the responsibility for managing funding for the Group, and operating groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding and are fully costed. Generally operating groups may only source funding directly from external sources when there is recourse only to the assets being funded and not to the Bank.

Deposits are a funding source for Macquarie. Banking & Financial Services receives a deposit premium from Group Treasury on deposits they generate. This deposit premium is included within net interest and trading income for segment reporting purposes.



#### *Transactions between operating groups*

Operating groups that enter into arrangements with other operating groups must do so on commercial terms or as agreed by the Group's Chief Executive Officer or Chief Financial Officer. There is a requirement for accounting symmetry in such transactions.

Internal transactions are recognized in each of the relevant categories of income and expense as appropriate.

#### *Central service groups*

Central service groups recover their costs from operating groups on either a time and effort allocation basis or a fee for service basis. Central service groups include Corporate Operations Group ("COG"), Financial Management Group ("FMG"), Risk Management Group ("RMG"), Legal and Governance and Central Executive.

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

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan is recognized in the Corporate segment and not allocated to operating groups.

#### *Income tax*

Income tax expense and benefits are recognized in the Corporate segment and not allocated to operating groups. However, to recognize an operating group's contribution to permanent income tax differences, an internal management revenue or charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognized 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 summarized 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 MBL Group's financial performance.

## Segment analysis

### *Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets and the Macquarie Investment Management divisions)*

|   | Year ended   |              | Movement <sup>1</sup> |
|---|--------------|--------------|-----------------------|
|   | Mar 15       | Mar 14       |                       |
|   | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b> .....  | <b>112</b>   | <b>86</b>    | <b>30</b>             |
| <b>Fee and commission income</b>  |              |              |                       |
| Base fees .....   | 23           | 20           | 15                    |
| Other fee and commission income .....   | 61           | 42           | 45                    |
| <b>Total fee and commission income</b> .....  | <b>84</b>    | <b>62</b>    | <b>35</b>             |
| <b>Share of net profits/(losses) of associates and joint ventures accounted for using the equity method</b> ..... | (1)          | (1)          | -                     |
| <b>Other operating income and charges</b>   |              |              |                       |
| Net gains on sale of equity investments .....   | 6            | 29           | (79)                  |
| Other income .....  | 18           | 20           | (10)                  |
| <b>Total other operating income and charges</b> .....   | <b>24</b>    | <b>49</b>    | <b>(51)</b>           |
| <b>Internal management revenue</b> <sup>2</sup> .....   | <b>(1)</b>   | <b>4</b>     | <b>*</b>              |
| <b>Net operating income</b> .....   | <b>218</b>   | <b>200</b>   | <b>9</b>              |
| <b>Operating expenses</b>   |              |              |                       |
| Employment expenses .....   | (21)         | (20)         | 5                     |
| Brokerage, commission and trading-related expenses .....  | (16)         | (12)         | 33                    |
| Other operating expenses .....  | (84)         | (92)         | (9)                   |
| <b>Total operating expenses</b> .....   | <b>(121)</b> | <b>(124)</b> | <b>(2)</b>            |
| Non-controlling interests <sup>3</sup> .....  | -            | -            | -                     |
| <b>Net profit contribution</b> .....  | <b>97</b>    | <b>76</b>    | <b>28</b>             |
| <b>Other metrics</b>  |              |              |                       |
| Headcount .....   | 99           | 89           | 11                    |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Internal transactions — Internal management revenue/(charges)”.

<sup>3</sup> The non-controlling interests category adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit or loss contribution represents the net profit or loss attributable to ordinary equity holders.

Macquarie Asset Management’s net profit contribution of A\$97 million for the year ended March 31, 2015 increased 28% from A\$76 million in the prior fiscal year. The improved result was primarily driven by increased activity in the Macquarie Specialised Investment Solutions (MSIS) division. See “—Presentation.”

#### **Net interest and trading income**

Net interest and trading income of A\$112 million for the year ended March 31, 2015 increased 30% from A\$86 million in the prior fiscal year. The higher income for the year was primarily due to increased activity in the Macquarie Infrastructure Debt Investment Solutions (MIDIS) business.

#### **Fee and commission income**

Total fee and commission income includes base fees, distribution service fees, structuring fees, principal protection fees and brokerage and commission. Total fee and commission income of A\$84 million for the year ended March 31, 2015 included non-recurring income in the Australian businesses.

### Other operating income and charges

#### *Net gains on sale of equity investments*

Net gains on sale of equity investments of A\$6 million for the year ended March 31, 2015 decreased from A\$29 million in the prior fiscal year. The decrease primarily relates to an internal gain on sale of assets between divisions within Macquarie Asset Management in the prior fiscal year.

#### *Other income*

Other income of A\$18 million for the year ended March 31, 2015 was broadly in line with the prior fiscal year.

### Operating expenses

Total operating expenses of A\$121 million for the year ended March 31, 2015 were broadly in line with the prior fiscal year.

### *Banking & Financial Services*

|  | Year ended     |                | Movement <sup>1</sup> |
|--|----------------|----------------|-----------------------|
|  | Mar 15         | Mar 14         |                       |
|  | A\$m           | A\$m           | %                     |
| <b>Net interest and trading income</b> .....   | <b>825</b>     | <b>739</b>     | <b>12</b>             |
| <b>Fee and commission income</b>   |                |                |                       |
| Base fees .....  | 12             | 24             | (50)                  |
| Brokerage and commissions .....  | 122            | 179            | (32)                  |
| Other fee and commission income .....  | 394            | 362            | 9                     |
| <b>Total fee and commission income</b> .....   | <b>528</b>     | <b>565</b>     | <b>(7)</b>            |
| <b>Share of net profits of associates and joint ventures accounted for using the equity method</b> ..... | <b>3</b>       | <b>2</b>       | <b>50</b>             |
| <b>Other operating income and charges</b>  |                |                |                       |
| Net gains on sale of equity investments .....  | 4              | 49             | (92)                  |
| Impairment charge on equity investments .....  | (5)            | (2)            | 150                   |
| Provisions for impairment, write-offs and collective allowance for credit losses .....                   | (31)           | (47)           | (34)                  |
| Other income .....   | 13             | (1)            | *                     |
| <b>Total other operating income and charges</b> .....  | <b>(19)</b>    | <b>(1)</b>     | <b>*</b>              |
| <b>Internal management revenue</b> <sup>2</sup> .....  | <b>3</b>       | <b>5</b>       | <b>(40)</b>           |
| <b>Net operating income</b> .....  | <b>1,340</b>   | <b>1,310</b>   | <b>2</b>              |
| <b>Operating expenses</b>  |                |                |                       |
| Employment expenses .....  | (372)          | (404)          | (8)                   |
| Brokerage, commission and trading-related expenses .....   | (198)          | (168)          | 18                    |
| Other operating expenses .....   | (490)          | (488)          | <1                    |
| <b>Total operating expenses</b> .....  | <b>(1,060)</b> | <b>(1,060)</b> | <b>-</b>              |
| <b>Net profit contribution</b> .....   | <b>280</b>     | <b>250</b>     | <b>12</b>             |
| <b>Other metrics</b>   |                |                |                       |
| Funds under management/advice/administration (A\$ billion) <sup>3</sup> .....                            | 146.5          | 127.7          | 15                    |
| Australian loan portfolio (A\$ billion) <sup>4</sup> .....   | 30.4           | 21.5           | 41                    |
| Legacy loan portfolio (A\$ billion) <sup>5</sup> .....   | 3.8            | 5.5            | (31)                  |
| Retail deposits (A\$ billion) .....  | 37.3           | 33.3           | 12                    |

|                | Year ended |        | Movement <sup>1</sup> |
|----------------|------------|--------|-----------------------|
|                | Mar 15     | Mar 14 |                       |
|                | A\$m       | A\$m   | %                     |
| Headcount..... | 2,505      | 2,419  | 4                     |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Internal transactions — Internal management revenue/(charges)”.

<sup>3</sup> Funds under management/advice/administration includes Assets under Management plus items such as funds on Banking & Financial Services platforms (e.g., wrap Funds under Administration), total Banking & Financial Services loan and deposit portfolios, CHESSE holdings of Banking & Financial Services clients and funds under advice (e.g., assets under advice of Macquarie Private Bank).

<sup>4</sup> The Australian loan portfolio primarily comprises residential mortgages, loans to Australian businesses, insurance premium funding and credit cards.

<sup>5</sup> The legacy loan portfolio primarily comprises residential mortgages in Canada and the United States.

Banking & Financial Services’ net profit contribution of A\$280 million for the year ended March 31, 2015 increased 12% from A\$250 million in the prior fiscal year.

In the year ended March 31, 2015, Banking & Financial Services benefited from strong volume growth in Australian mortgages, business lending, deposits and the wrap platform, partially offset by higher distribution costs and increased investment in technology projects to support growth in the business, including the development of a new Core Banking System.

### Net interest and trading income

Net interest and trading income of A\$825 million for the year ended March 31, 2015 increased 12% from A\$739 million in the prior fiscal year primarily due to growth in lending and deposit volumes, including:

- a 44% increase in Australian mortgage volumes from A\$17.0 billion at March 31, 2014 to A\$24.5 billion at March 31, 2015 including acquisitions of residential mortgage portfolios totalling A\$2.5 billion during the year;
- a 27% increase in business lending volumes from A\$4.1 billion at March 31, 2014 to A\$5.2 billion at March 31, 2015;
- a 12% increase in retail deposits from A\$33.3 billion at March 31, 2014 to A\$37.3 billion at March 31, 2015; and
- a 100% increase in credit card volumes from A\$0.3 billion at March 31, 2014 to A\$0.6 billion at March 31, 2015 driven by the acquisition of the Woolworths credit card portfolio in May 2014.

The increased net interest and trading income from volume growth was partially offset by lower deposit and lending margins. Average net interest margins on the Australian mortgages portfolio decreased as loans with higher margins continued to run off.

The legacy loan portfolios, which are primarily comprised of residential mortgages in Canada and the United States, are in run-off and closed at a combined A\$3.8 billion at March 31, 2015, down 31% from A\$5.5 billion at March 31, 2014.

### Fee and commission income

#### Base fees

Base fee income of A\$12 million for the year ended March 31, decreased 50% from A\$24 million in the prior fiscal year driven by the sale of Macquarie Private Wealth Canada in November 2013.

### *Brokerage and commissions*

Brokerage and commissions income of A\$122 million for the year ended March 31, decreased 32% from A\$179 million in the prior fiscal year mainly due to the sale of Macquarie Private Wealth Canada in November 2013.

The remaining income, which is largely derived from the provision of retail equities broking services in Australia, decreased from the prior fiscal year mainly due to a reduction in adviser headcount.

### *Other fee and commission income*

Other fee and commission income relates to fees earned on a range of Banking and Financial Services' products including the wrap platform, insurance, business lending, credit cards and mortgages.

Other fee and commission income of A\$394 million for the year ended March 31, 2015 increased 9% from A\$362 million in the prior fiscal year. Income resulting from the acquisition of the Woolworths credit card portfolio in May 2014 and increased platform commissions driven by higher assets under administration on the wrap platform were partly offset by the loss of income as a result of the sale of Macquarie Private Wealth Canada in November 2013.

Macquarie platform assets under administration closed at A\$48.0 billion on March 31, 2015, an increase of 19% from A\$40.3 billion at March 31, 2014. This increase was due to net inflows and positive market movements.

### *Net gains on sale of equity investments*

Net gains on sale of equity investments of A\$4 million for the year ended March 31, 2015 predominantly related to the sale of a minority investment in a mortgage aggregator. The net gains on sale of equity investments in the prior fiscal year were largely from the disposal of an investment in OzForex on its IPO in October 2013.

### **Other operating income and charges**

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

Provisions for impairment, write-offs and collective allowance for credit losses of A\$31 million for the year ended March 31, 2015 decreased 34% from A\$47 million in the prior fiscal year due to lower provisions for impairment relating to mortgage and business lending clients including the recovery in the current year of certain business loans previously provided for.

#### *Other income*

Other income of A\$13 million for the year ended March 31, 2015 increased from a loss of A\$1 million in the prior fiscal year mainly due to dividends received from a number of investments in mortgage brokers and aggregators.

### **Operating expenses**

Total operating expenses of A\$1,060 million for the year ended March 31, 2015 were in line with the prior fiscal year.

#### *Employment expenses*

Employment expenses of A\$372 million for the year ended March 31, 2015 decreased 8% from A\$404 million in the prior fiscal year. The impact from the sale of Macquarie Private Wealth Canada in November 2013 was partially offset by an increase in headcount to support business growth and investment in technology projects.

*Brokerage, commission and trading-related expenses*

Brokerage, commission and trading-related expenses mainly relate to amounts paid to external advisers for product distribution and the cost of credit cards partner and rewards programs. Brokerage, commission and trading related expenses of A\$198 million for the year ended March 31, 2015 increased 18% from A\$168 million in the prior fiscal year primarily due to the acquisition of the Woolworths credit card portfolio in May 2014 and increased lending and deposit volumes.

*Other operating expenses*

Other operating expenses of A\$490 million for the year ended March 31, 2015 were broadly in line with the prior fiscal year. Investment in technology projects to support business growth, including the development of a new Core Banking system, was offset by lower expenses resulting from the sale of Macquarie Private Wealth Canada in November 2013.

*Corporate & Asset Finance*

|  | Year ended   |              | Movement <sup>1</sup> |
|--|--------------|--------------|-----------------------|
|  | Mar 15       | Mar 14       |                       |
|  | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b> .....   | <b>725</b>   | <b>648</b>   | <b>12</b>             |
| <b>Fee and commission income</b> .....   | <b>34</b>    | <b>36</b>    | <b>(6)</b>            |
| <b>Share of net (losses)/profits of associates and joint ventures accounted for using the equity method</b> .....            | <b>4</b>     | <b>2</b>     | <b>100</b>            |
| <b>Other operating income and charges</b>  |              |              |                       |
| Impairment charge on equity investments, intangibles and non-financial assets .....  | (49)         | (10)         | *                     |
| Gain on disposal of operating lease assets .....   | 231          | 2            | *                     |
| Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held for sale ..... | 141          | 5            | *                     |
| Net operating lease income .....   | 561          | 520          | 8                     |
| Provisions for impairment, write-offs and collective allowance for credit losses .....                                       | (103)        | (75)         | 37                    |
| Other income .....   | 45           | 50           | (10)                  |
| <b>Total other operating income and charges</b> .....  | <b>826</b>   | <b>492</b>   | <b>68</b>             |
| <b>Internal management revenue</b> <sup>2</sup> .....  | <b>(4)</b>   | <b>13</b>    | <b>*</b>              |
| <b>Net operating income</b> .....  | <b>1,585</b> | <b>1,191</b> | <b>33</b>             |
| <b>Operating expenses</b>  |              |              |                       |
| Employment expenses .....  | (210)        | (174)        | 21                    |
| Brokerage, commission and trading-related expenses .....   | (11)         | (13)         | (15)                  |
| Other operating expenses .....   | (256)        | (188)        | 36                    |
| <b>Total operating expenses</b> .....  | <b>(477)</b> | <b>(375)</b> | <b>27</b>             |
| Non-controlling interests <sup>3</sup> .....   | -            | -            | -                     |
| <b>Net profit contribution</b> .....   | <b>1,108</b> | <b>816</b>   | <b>36</b>             |
| <b>Other metrics</b>   |              |              |                       |
| Loan and finance lease portfolio (A\$ billion) .....   | 22.2         | 19.6         | 13                    |
| Operating lease portfolio (A\$ billion) .....  | 6.3          | 5.7          | 11                    |
| Headcount .....  | 1,017        | 1,020        | (<1)                  |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Internal transactions — Internal management revenue/(charges)”.

<sup>3</sup> The non-controlling interests category adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit or loss contribution represents the net profit or loss attributable to ordinary equity holders.

Corporate & Asset Finance’s net profit contribution of A\$1,108 million for the year ended March 31, 2015 increased 36% from A\$816 million in the prior fiscal year. The improved result was largely driven by profit on the sale of the Macquarie Equipment Finance U.S. operations and gains on the disposal of operating lease assets, together with growth of volumes in key portfolios.

**Net interest and trading income**

Net interest and trading income in Corporate & Asset Finance predominantly relates to income from the corporate lending and asset financing portfolios, which is offset by the funding costs associated with operating lease portfolios.

Net interest and trading income of A\$725 million for the year ended March 31, 2015 increased 12% from A\$648 million in the prior fiscal year. The increase was mainly due to portfolio growth and the accretion of interest

income on loans acquired at a discount in the Lending portfolio, partially offset by internal break costs associated with the sales of the North American railcar operating lease portfolio in January 2015 and the Macquarie Equipment Finance U.S. operations in March 2015.

The loan and finance lease portfolios of A\$22.2 billion at March 31, 2015 increased 13% from A\$19.6 billion in the prior fiscal year driven by growth in the Lending and Leasing portfolios as a result of acquisitions and the favorable impact of the depreciation of the Australian dollar on non-Australian dollar denominated portfolios, partially offset by the sale of Macquarie Equipment Finance U.S. operations.

### **Other operating income and charges**

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

Impairment charge on equity investments and non-financial assets of A\$49 million for the year ended March 31, 2015 increased from A\$10 million in the prior fiscal year primarily due to the impairment of a number of less marketable and older aircraft in the Aviation portfolio and the write-off of certain assets realized through the restructure of an operating lease facility outlined below.

#### *Gain on disposal of operating lease assets*

Gain on disposal of operating lease assets of A\$231 million for the year ended March 31, 2015 predominantly relates to the gain on disposal of the North American railcar operating lease portfolio in January 2015, gains on the sale of aircraft, and the restructure of a railcar logistics operating lease facility in August 2014 resulting in the derecognition of the operating lease assets and recognition of a finance lease receivable. This gain was partially offset by costs and charges associated with the transaction (refer Impairment charge on equity investments, intangibles and other non-financial assets and Operating expenses).

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

Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held for sale of A\$141 million for the year ended March 31, 2015 primarily relates to the gain on the sale of the Macquarie Equipment Finance U.S. operations in March 2015.

#### *Net operating lease income*

Net operating lease income of A\$561 million for the year ended March 31, 2015 increased 8% from A\$520 million in the prior fiscal year. The increase is broadly in line with growth of the operating lease portfolio from A\$5.7 billion at March 31, 2014 to A\$6.3 billion at March 31, 2015, which was primarily driven by the favorable impact of the depreciation of the Australian dollar on non-Australian dollar denominated assets and acquisitions in the Aviation portfolio, partially offset by the divestment of the North American railcar operating lease portfolio in January 2015.

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

Provisions for impairment, write-offs and collective allowance for credit losses of A\$103 million for the year ended March 31, 2015 increased 37% from A\$75 million in the prior fiscal year mainly due to additional collective provisions reflecting portfolio growth and the changing mix of assets in the lending and finance leasing portfolios.

### **Operating expenses**

Total operating expenses of A\$477 million for the year ended March 31, 2015 increased 27% from A\$375 million in the prior fiscal year.

#### *Employment expenses*



Employment expenses of A\$210 million for the year ended March 31, 2015 increased 21% from A\$174 million in the prior fiscal year primarily due to the full year impact of headcount increases in the prior fiscal year to support business growth and the impact of the depreciation of the Australian dollar on offshore expenses.

*Other operating expenses*

Other operating expenses of A\$256 million for the year ended March 31, 2015 increased 36% from A\$188 million in the prior fiscal year mainly due to investment in platforms and transaction related expenses associated with an operating lease restructure (see “—Other Operating income and charges—Gain on disposal of operating lease assets” above), the sale of the Macquarie Equipment Finance U.S. operations, the sale of the North American railcar operating lease portfolio and the execution of an agreement to acquire an aircraft operating lease portfolio from AWAS Aviation Capital Limited.

*Commodities & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities)*

|   | Year ended   |              | Movement <sup>1</sup> |
|---|--------------|--------------|-----------------------|
|   | Mar 15       | Mar 14       |                       |
|   | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b>  |              |              |                       |
| Commodities <sup>2</sup> .....  | 1,115        | 1,124        | (1)                   |
| Credit, interest rates and foreign exchange.....  | 520          | 375          | 39                    |
| <b>Net interest and trading income</b> .....  | <b>1,635</b> | <b>1,499</b> | <b>9</b>              |
| <b>Fee and commission income</b>  |              |              |                       |
| Brokerage and commissions.....  | 111          | 98           | 13                    |
| Other fee and commission income.....  | 237          | 17           | *                     |
| <b>Total fee and commission income</b> .....  | <b>348</b>   | <b>115</b>   | <b>203</b>            |
| <b>Share of net (losses)/profits of associates and joint ventures accounted for using the equity method</b> ..... | <b>(1)</b>   | <b>24</b>    | <b>*</b>              |
| <b>Other operating income and charges</b>   |              |              |                       |
| Net gains on sale of equity investments.....  | 37           | 45           | (18)                  |
| Impairment charge on equity investments, intangibles and other non-financial assets.....                          | (99)         | (117)        | (15)                  |
| Provisions for impairment and collective allowance for credit losses.....   | (235)        | (90)         | 161                   |
| Other income.....   | 35           | 85           | (59)                  |
| <b>Total other operating income and charges</b> .....   | <b>(262)</b> | <b>(77)</b>  | <b>240</b>            |
| <b>Internal management revenue</b> <sup>3</sup> .....   | <b>(10)</b>  | <b>(7)</b>   | <b>43</b>             |
| <b>Net operating income</b> .....   | <b>1,710</b> | <b>1,554</b> | <b>10</b>             |
| <b>Operating expenses</b>   |              |              |                       |
| Employment expenses.....  | (239)        | (223)        | 7                     |
| Brokerage, commission and trading-related expenses.....   | (255)        | (280)        | (9)                   |
| Amortization of intangibles.....  | (4)          | (17)         | (76)                  |
| Other operating expenses.....   | (444)        | (391)        | 14                    |
| <b>Total operating expenses</b> .....   | <b>(942)</b> | <b>(911)</b> | <b>3</b>              |
| <b>Net profit contribution</b> .....  | <b>768</b>   | <b>643</b>   | <b>19</b>             |
| <b>Other metrics</b>  |              |              |                       |
| Headcount.....  | 828          | 786          | 5                     |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> Includes fair value adjustments relating to various tolling agreements, capacity contracts and transportation agreements as part of its commodity trading and hedging strategies. The contracts and agreements, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes.

<sup>3</sup> See “— Basis of preparation — Internal transactions — Internal management revenue/(charges)”.

Commodities & Financial Markets’ net profit contribution for the year ended March 31, 2015 was A\$768 million, an increase of 19% from A\$643 million in the prior fiscal year. Net operating income of A\$1,710 million for the year ended March 31, 2015 increased 10% from A\$1,554 million in the prior fiscal year, while total operating expenses of A\$942 million increased 3% from A\$911 million in the prior fiscal year.

The result for Commodities & Financial Markets reflects a general improvement in market conditions compared to the prior fiscal year driving increased client activity and a fee from Freeport LNG Terminal, partially offset by increased provisions for impairment taken on certain underperforming credits.

**Net interest and trading income**

### *Commodities trading income*

Net interest and trading income from commodities was A\$1,115 million for the year ended March 31, 2015, a decrease of 1% from A\$1,124 million in the prior fiscal year.

The Energy Markets business was the largest contributor with revenues generated across its global platform driven by strong customer flow off the back of price volatility, particularly in the Global Oil and North American Gas businesses, together with continued growth in physical activities, which also benefited from volatility across most commodities. This was partially offset by lower inventory management, transport and storage income from the North American Gas business following a strong performance in the prior fiscal year.

Base metals markets saw increased client activity, while depressed prices in precious metals markets led to lower levels of client activity.

Financing income was down on the prior year, mainly driven by the physical metals financing activities. This was offset by the reduction of associated storage costs that, for accounting purposes, are recognized in brokerage, commission and trading-related expenses. Overall, net income from physical metals financing activities is broadly in line with the prior year when considering associated storage costs.

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

Net interest and trading income from credit, interest rates and foreign exchange products of A\$520 million for the year ended March 31, 2015 increased 39% from A\$375 million in the prior fiscal year.

Increased volatility in foreign exchange and interest rate markets, particularly in the second half of the year, led to increased client activity. This was partially offset by lower levels of client activity in U.S. credit markets.

### **Total fee and commission income**

Total fee and commissions income of A\$348 million for the year ended March 31, 2015 increased significantly from A\$115 million in the prior fiscal year.

The current year includes a fee from Freeport LNG Terminal, while there has been a continued growth and increase in transaction flows across the securitization and origination businesses, particularly in the United Kingdom and Europe.

### **Other operating income and charges**

#### *Net gains on sale of equity investments*

Net gains on sale of equity investments of A\$37 million for the year ended March 31, 2015 decreased 18% from A\$45 million in the prior fiscal year. Mining equity markets remained subdued during the 2015 fiscal year, which impacted the timing and number of asset realizations.

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

Impairment charges on equity investments, intangibles and other non-financial assets of A\$99 million for the year ended March 31, 2015 decreased 15% from A\$117 million in the prior fiscal year, largely driven by mining investments where equity markets remained subdued and the lower value of the equity portfolio.

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

Provisions for impairment and collective allowance for credit losses of A\$235 million for the year ended March 31, 2015 increased significantly from A\$90 million in the prior fiscal year mainly due to the underperformance of certain credits and the downward movement in certain commodity prices.

#### *Other income*

Other income of A\$35 million for the year ended March 31, 2015 decreased 59% from A\$85 million in the prior fiscal year, which included significant gains from the sale of net profit interests.

#### **Operating expenses**

Total operating expenses of A\$942 million for the year ended March 31, 2015, increased 3% from A\$911 million in the prior fiscal year.

#### *Employment expenses*

Employment expenses of A\$239 million for the year ended March 31, 2015 increased 7% from A\$223 million in the prior fiscal year, largely due to the impact of the depreciation of the Australian dollar on offshore expenses.

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

Brokerage, commission and trading-related expenses of A\$255 million for the year ended March 31, 2015 decreased 9% from A\$280 million in the prior fiscal year. This was driven by the reduction in storage costs for physical commodities that, for accounting purposes, are reported within brokerage, commission and trading-related expenses, while the associated income is included within commodities trading income.

#### *Amortization of intangibles*

Amortization of intangibles relate to investments in net profit interests which are amortized based on the production output of the investment. The expense of A\$4 million for the year ended March 31, 2015 was down 76% from A\$17 million in the prior fiscal year, consistent with the sale of a number of net profit interests in the prior fiscal year.

#### *Other operating expenses*

Other operating expenses of A\$444 million for the year ended March 31, 2015 increased 14% from A\$391 million in the prior fiscal year mainly due to continued investment in technology to meet increasing regulatory compliance requirements globally, combined with the impact of the depreciation of the Australian dollar on offshore expenses.

*Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions)*

|  | Year ended   |              | Movement <sup>1</sup> |
|--|--------------|--------------|-----------------------|
|  | Mar 15       | Mar 14       |                       |
|  | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b> .....   | <b>316</b>   | <b>231</b>   | <b>37</b>             |
| <b>Fee and commission income</b>   |              |              |                       |
| Brokerage and commissions .....  | 164          | 185          | (11)                  |
| Other fee and commission expense .....   | (105)        | (88)         | 19                    |
| <b>Total fee and commission income</b> .....   | <b>59</b>    | <b>97</b>    | <b>(39)</b>           |
| <b>Share of net profits of associates and joint ventures accounted for using the equity method</b> ..... | -            | -            | -                     |
| <b>Other operating income and charges</b> .....  | <b>(3)</b>   | <b>(6)</b>   | <b>(50)</b>           |
| <b>Internal management revenue</b> <sup>2</sup> .....  | <b>(4)</b>   | <b>1</b>     | <b>*</b>              |
| <b>Net operating income</b> .....  | <b>368</b>   | <b>323</b>   | <b>14</b>             |
| <b>Operating expenses</b>  |              |              |                       |
| Employment expenses .....  | (46)         | (42)         | 10                    |
| Brokerage, commission and trading-related expenses .....   | (117)        | (88)         | 33                    |
| Other operating expenses .....   | (204)        | (175)        | 17                    |
| <b>Total operating expenses</b> .....  | <b>(367)</b> | <b>(305)</b> | <b>20</b>             |
| <b>Net profit contribution</b> .....   | <b>1</b>     | <b>18</b>    | <b>(94)</b>           |
| <b>Other metrics</b>   |              |              |                       |
| Headcount .....  | <b>152</b>   | <b>171</b>   | <b>(11)</b>           |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Internal transactions — Internal management revenue/(charges)”.

Macquarie Securities’ net profit contribution of A\$1 million for the year ended March 31, 2015 decreased from A\$18 million in the prior fiscal year. Income from trading activities increased, driven by increased activity in certain markets, which was offset by increased costs largely as a result of regulatory driven investment in platforms and processes and restructuring costs associated with the exit of Structured Products during the year.

**Net interest and trading income**

Net interest and trading income of A\$316 million for the year ended March 31, 2015 increased 37% from A\$231 million in the prior fiscal year. The increase was mainly due to improved trading opportunities driven by increased market volatility in certain emerging markets, particularly China.

**Total fee and commission income**

*Brokerage and commissions*

Brokerage and commissions income of A\$164 million for the year ended March 31, 2015 decreased 11% from A\$185 million in the prior fiscal year driven by lower client activity in institutional cash equities in Asia, partly offset by commissions in Australia from our role as an ASX Cash Equities and ETO Clearing and Settlement Participant since February 2014.

*Other fee and commission expense*

Other fee and commission expense, which mainly consists of tax transfer pricing charges, of A\$105 million for the year ended March 31, 2015 increased 19% from A\$88 million in the prior fiscal year due to an increase in

transfer pricing payments to Asian warrants trading, partly offset by increased client stock borrowing activity compared to the prior fiscal year.

### **Operating expenses**

Total operating expenses of A\$367 million for the year ended March 31, 2015 increased 20% from A\$305 million in the prior fiscal year.

#### *Employment expenses*

Employment expenses of A\$46 million for the year ended March 31, 2015 increased 10% from A\$42 million in the prior fiscal year primarily due to the impact of the depreciation of the Australian dollar on offshore expenses and restructuring costs associated with the exit of Structured Products during the year. The impact of these increases was partially offset by reduced headcount.

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

Brokerage, commission and trading-related expenses of A\$117 million for the year ended March 31, 2015 increased 33% from A\$88 million in the prior fiscal year primarily due to increased trading-related activity.

#### *Other operating expenses*

Other operating expenses of A\$204 million for the year ended March 31, 2015 increased 17% from A\$175 million in the prior fiscal year mainly due to ongoing investment in platforms and processes driven by increasing regulatory compliance requirements and the impact of the depreciation of the Australian dollar on offshore expenses.

*Corporate*

|   | Year ended   |              | Movement <sup>1</sup> |
|---|--------------|--------------|-----------------------|
|   | Mar 15       | Mar 14       |                       |
|   | A\$m         | A\$m         | %                     |
| <b>Net interest and trading income</b> .....                                      | <b>258</b>   | <b>124</b>   | <b>108</b>            |
| <b>Fee and commission expense</b> .....   | <b>(159)</b> | <b>(97)</b>  | <b>64</b>             |
| <b>Share of net (losses)/profits of associates and joint ventures</b>             |              |              |                       |
| <b>accounted for using the equity method</b> .....                                | <b>(22)</b>  | <b>(9)</b>   | <b>144</b>            |
| <b>Other operating income and charges</b>   |              |              |                       |
| Net gains on sale of debt and equity securities .....                             | 23           | 30           | (23)                  |
| Impairment charge on investments, intangibles and other non-financial assets..... | 5            | -            | *                     |
| Provisions for impairment and collective allowance for credit losses .....        | (29)         | (1)          | *                     |
| Other income .....  | (18)         | (31)         | (42)                  |
| <b>Total other operating income and charges</b> .....                             | <b>(19)</b>  | <b>(2)</b>   | <b>*</b>              |
| <b>Internal management charge</b> <sup>2</sup> .....                              | <b>16</b>    | <b>(16)</b>  | <b>*</b>              |
| <b>Net operating income/(loss)</b> .....  | <b>74</b>    | <b>-</b>     | <b>*</b>              |
| <b>Operating expenses</b>   |              |              |                       |
| Employment expenses .....   | (578)        | (488)        | 18                    |
| Brokerage, commission and trading-related expenses .....                          | (4)          | (5)          | (20)                  |
| Other operating expenses.....   | (228)        | (136)        | (68)                  |
| <b>Total operating expenses</b> .....   | <b>(810)</b> | <b>(629)</b> | <b>29</b>             |
| <b>Net profit contribution</b> .....  | <b>(736)</b> | <b>(629)</b> | <b>17</b>             |
| <b>Other metrics</b>  |              |              |                       |
| Headcount.....  | 45           | 55           | (18)                  |

<sup>1</sup> “\*” indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

<sup>2</sup> See “— Basis of preparation — Internal transactions — Internal management revenue/(charges)”.

<sup>3</sup> The non-controlling interests category adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit or loss contribution represents the net profit or loss attributable to ordinary equity holder.

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 unallocated costs, including performance-related profit share and share based payments expense.

The Corporate segment’s net loss contribution increased 17% to A\$736 million for the year ended March 31, 2015 from A\$629 million in the prior fiscal year mainly driven by higher staff compensation resulting from the improved performance of the MBL Group.

**Net interest and trading income**

Net interest and trading income in the Corporate segment includes the net result of managing liquidity and funding for the MBL Group, earnings on capital, non-trading derivative volatility, funding cost associated with non-core investments held centrally and fair value movements on investments held to hedge liabilities under the Directors’ Profit Share plan.

Net interest and trading income of A\$258 million for the year ended March 31, 2015 increased significantly from A\$124 million in the prior fiscal year mainly due to an increase in income from internal funding arrangements as a result of business growth across the MBL Group, the receipt of internal break income from Corporate & Asset Finance associated with business sales, the refinancing of higher margin debt and favorable non-trading derivative volatility during the year. The Corporate segment is exposed to accounting volatility in relation to economically hedged positions that do not qualify for hedge accounting.

### **Fee and commission expense**

Fee and commissions expenses primarily relates to internal transactions with operating groups that net out in their entirety on consolidation across MBL Group. External fee and commissions income is minimal. Fee and commission expense of A\$159 million for the year ended March 31, 2015 compared to fee and commissions expense of A\$97 million in the prior fiscal year.

### **Share of net losses of associates and joint ventures accounted for using the equity method**

Share of net losses of associates and joint ventures of A\$22 million for the year ended March 31, 2015, increased from losses of A\$9 million in the prior fiscal year. The movement reflects changes in the underlying performance of central investments, which includes legacy assets.

### **Other operating income and charges**

#### *Net gains on sale of debt and equity securities*

Net gains on sale of debt and equity securities of A\$23 million for the year ended March 31, 2015 decreased 23% from A\$30 million in the prior fiscal year mainly due to higher gains on the disposal of securities undertaken in managing the Group's liquidity in the prior fiscal year.

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

Provisions for impairment and collective allowance for credit losses of A\$29 million for the year ended March 31, 2015, increased from A\$1 million in the prior fiscal year primarily due to an increase to the collective provision central management overlay in Corporate to account for changes in current economic conditions.

### **Operating expenses**

#### *Employment expenses*

Employment expenses in the Corporate segment primarily relate to performance-related profit share and share-based payments expense and the impact of fair value adjustments to Directors' Profit Share liabilities.

For the year ended March 31, 2015 employment expenses were A\$578 million, an increase of 18% from A\$488 million in the prior fiscal year. The increase was mainly attributable to the improved performance of the MBL Group and the impact of the depreciation of the Australian dollar on offshore expenses.

#### *Other operating expenses*

Other operating expenses of A\$228 million for the year ended March 31, 2015 increased 68% from A\$136 million in the prior fiscal year, which reflects an increased cost base of central service groups resulting from investment in technology platforms, increased regulatory compliance costs and the impact of the depreciation of the Australian dollar on offshore expenses.



## Capital analysis

### Overview

As an APRA authorized and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for the whole MGL Group, including the Non-Banking Group. MGL and APRA have agreed a capital adequacy framework for MGL, based on MGL's Board-approved Economic Capital Adequacy Model ("*ECAM*") and APRA's capital standards for ADIs.

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

- The Banking 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-Banking Group capital requirement, calculated using MGL's ECAM.

Transactions internal to MGL Group are eliminated.

### Banking Group capital

MBL 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.

Capital disclosures in this section include Harmonized Basel III<sup>1</sup> and APRA Basel III<sup>2</sup>. The former is relevant for comparison with banks regulated by regulators other than APRA, whereas the latter reflects MBL's regulatory requirements under APRA Basel III rules.

### Common Equity Tier 1 Capital

The Banking 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 consists of MIS, ECS and BCN. MBL periodically pays dividends to MGL, and is recapitalized 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 MBL. MIS are eligible for transitional arrangements under APRA Basel III rules.

ECS were issued by MBL acting through its London branch (the "*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

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<sup>1</sup> Harmonized 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).

<sup>2</sup> APRA Basel III relates to the Prudential Standards released by APRA for the period effective from January 1, 2013.

MGL ordinary shares on June 20, 2017 (or earlier in certain circumstances). ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on June 20, 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.

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 March 24, 2020, September 24, 2020 and March 24, 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 March 24, 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.

### *Pillar 3*

The APRA 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 MBL's U.S. Investors' Website.

### *Banking Group Basel III Tier 1 Capital*

|  | <b>As at Mar 16</b>         |                       |
|--|-----------------------------|-----------------------|
|  | <b>Harmonized Basel III</b> | <b>APRA Basel III</b> |
|  | <b>A\$m</b>                 | <b>A\$m</b>           |
| <b><i>Common Equity Tier 1 Capital</i></b>   |                             |                       |
| Paid-up ordinary share capital .....   | 9,491                       | 9,491                 |
| Retained earnings .....  | 2,410                       | 2,410                 |
| Reserves .....   | 529                         | 529                   |
| <b>Gross Common Equity Tier 1 Capital .....</b>  | <b>12,430</b>               | <b>12,430</b>         |
| <b><i>Regulatory adjustments to Common Equity Tier 1 Capital:</i></b>                          |                             |                       |
| Goodwill .....   | 46                          | 46                    |
| Deferred tax assets .....  | 74                          | 173                   |
| Net other fair value adjustments .....   | (31)                        | (31)                  |
| Intangible component of investments in non-consolidated subsidiaries and other entities .....  | 36                          | 36                    |
| Loan and lease origination fees and commissions paid to mortgage originators and brokers ..... | -                           | 278                   |
| Equity exposures .....   | -                           | 1,345                 |
| Shortfall in provisions for credit losses .....  | 248                         | 267                   |
| Other Common Equity Tier 1 Capital deductions .....  | 143                         | 240                   |
| <b>Total Common Equity Tier 1 Capital deductions .....</b>                                     | <b>516</b>                  | <b>2,354</b>          |
| <b>Net Common Equity Tier 1 Capital .....</b>  | <b>11,914</b>               | <b>10,076</b>         |
| <b><i>Additional Tier 1 Capital</i></b>  |                             |                       |
| Additional Tier 1 Capital instruments .....  | 1,035                       | 1,035                 |
| <b>Gross Additional Tier 1 Capital .....</b>   | <b>1,035</b>                | <b>1,035</b>          |
| Deduction from Additional Tier 1 Capital .....   | -                           | -                     |
| <b>Net Additional Tier 1 Capital .....</b>   | <b>1,035</b>                | <b>1,035</b>          |
| <b>Total Net Tier 1 Capital .....</b>  | <b>12,949</b>               | <b>11,111</b>         |

**Banking Group Basel III Risk-Weighted Assets (RWA)**

|   | As at Mar 16                 |                        |
|---|------------------------------|------------------------|
|   | Harmonized Basel III<br>A\$m | APRA Basel III<br>A\$m |
| <b>Credit risk – Risk-Weighted Assets (RWA)</b>                         |                              |                        |
| Subject to IRB approach:  |                              |                        |
| Corporate .....   | 29,628                       | 29,628                 |
| SME Corporate .....   | 2,498                        | 2,498                  |
| Sovereign .....   | 363                          | 363                    |
| Bank .....  | 1,350                        | 1,350                  |
| Residential mortgage .....  | 4,485                        | 6,562                  |
| Other retail .....  | 3,677                        | 3,677                  |
| Retail SME .....  | 2,508                        | 2,582                  |
| <b>Total RWA subject to IRB approach .....</b>                          | <b>44,509</b>                | <b>46,660</b>          |
| <b>Specialized lending exposures subject to slotting criteria .....</b> | <b>7,234</b>                 | <b>7,234</b>           |
| Subject to Standardized approach:                                       |                              |                        |
| Corporate .....   | 755                          | 755                    |
| Residential mortgage .....  | 3,271                        | 3,271                  |
| Other retail .....  | 8,130                        | 8,130                  |
| <b>Total RWA subject to Standardized approach .....</b>                 | <b>12,156</b>                | <b>12,156</b>          |
| Credit risk RWA for Securitization exposures .....                      | 440                          | 324                    |
| Credit Valuation Adjustment RWA .....                                   | 2,853                        | 2,853                  |
| Exposures to Central Counterparties RWA .....                           | 623                          | 1,390                  |
| RWA for other assets .....  | 9,607                        | 9,081                  |
| <b>Total credit risk RWA .....</b>                                      | <b>77,422</b>                | <b>79,698</b>          |
| Equity risk exposures RWA .....   | 4,572                        | -                      |
| Market risk RWA .....   | 3,926                        | 3,926                  |
| Operational risk RWA .....  | 9,624                        | 9,624                  |
| Interest rate risk in banking book RWA .....                            | -                            | 576                    |
| <b>Total Banking Group RWA .....</b>                                    | <b>95,544</b>                | <b>93,824</b>          |
| <b>Capital ratios</b>   |                              |                        |
| MBL Group Common Equity Tier 1 Capital ratio (%) .....                  | <b>12.5%</b>                 | <b>10.7%</b>           |
| MBL Group Tier 1 Capital ratio (%) .....                                | <b>13.6%</b>                 | <b>11.8%</b>           |

*Statutory consolidated statement of financial position*

|  | As at          |                | Movement<br>% |
|--|----------------|----------------|---------------|
|  | Mar 16<br>A\$m | Mar 15<br>A\$m |               |
| <b>Assets</b>  |                |                |               |
| Receivables from financial institutions.....   | 30,956         | 25,981         | 19            |
| Trading portfolio assets .....   | 23,062         | 30,039         | (23)          |
| Derivative assets .....  | 17,962         | 19,952         | (10)          |
| Investment securities available-for-sale.....  | 9,008          | 6,345          | 42            |
| Other assets.....  | 6,918          | 7,818          | (12)          |
| Loan assets held at amortized cost.....  | 78,913         | 71,206         | 11            |
| Other financial assets at fair value through profit or loss .....                        | 1,057          | 1,323          | (20)          |
| Due from related body corporate entities .....   | 1,610          | 1,163          | 38            |
| Property, plant and equipment.....   | 11,304         | 6,743          | 68            |
| Interests in associates and joint ventures accounted for using the<br>equity method..... | 426            | 471            | (10)          |
| Intangible assets.....   | 224            | 229            | (2)           |
| Deferred tax assets.....   | 169            | 238            | (29)          |
| Assets of disposals group classified as held for sale.....                               | -              | 1,072          | (100)         |
| <b>Total assets</b> .....  | <b>181,609</b> | <b>172,580</b> | <b>5</b>      |
| <b>Liabilities</b>   |                |                |               |
| Trading portfolio liabilities.....   | 4,794          | 5,045          | (5)           |
| Derivative liabilities .....   | 14,713         | 18,100         | (19)          |
| Deposits .....   | 52,228         | 47,333         | 10            |
| Other liabilities .....  | 7,121          | 9,262          | (23)          |
| Payables to financial institutions .....   | 20,555         | 14,874         | 38            |
| Debt issued at amortized cost .....  | 55,142         | 53,033         | 4             |
| Other financial liabilities at fair value through profit or loss.....                    | 2,307          | 1,237          | 86            |
| Due to related body corporate entities .....   | 7,555          | 7,700          | (2)           |
| Deferred tax liabilities .....   | 406            | 378            | 7             |
| Liabilities of disposals group classified as held for sale.....                          | -              | 779            | (100)         |
| <b>Total liabilities excluding loan capital</b> .....                                    | <b>164,821</b> | <b>157,741</b> | <b>4</b>      |
| <b>Loan capital</b>  |                |                |               |
| Subordinated debt at amortized cost.....   | 4,078          | 3,240          | 26            |
| <b>Total loan capital</b> .....  | <b>4,078</b>   | <b>3,240</b>   | <b>26</b>     |
| <b>Total liabilities</b> .....   | <b>168,899</b> | <b>160,981</b> | <b>5</b>      |
| <b>Net assets</b> .....  | <b>12,710</b>  | <b>11,599</b>  | <b>10</b>     |
| <b>Equity</b>  |                |                |               |
| Contributed equity .....   | 9,882          | 9,082          | 9             |
| Reserves.....  | 483            | 603            | (20)          |
| Retained earnings .....  | 2,333          | 1,831          | 27            |
| Total capital and reserves attributable to equity holders of MBL.....                    | 12,698         | 11,516         | 10            |
| Non-controlling interests .....  | 12             | 83             | (86)          |
| <b>Total equity</b> .....  | <b>12,710</b>  | <b>11,599</b>  | <b>10</b>     |

Growth in the Bank's balance sheet has largely been driven by increased business activity across lending and asset financing and Treasury management initiatives. Total assets of A\$181.6 billion at March 31, 2016 increased 5% from A\$172.6 billion at March 31, 2015, while total liabilities increased 5% to A\$168.9 billion at March 31, 2016 from A\$161.0 billion at March 31, 2015. The key drivers of the movement in the balance sheet include:

- Treasury funding and liquidity management initiatives during the year ended March 31, 2016 including new issuances of long-term debt issued at amortized cost (partially offset by a decrease in short-term debt);
- A decline in market conditions in the second half of the year, that led to decreased trading opportunities, mainly in China, resulted in a reduction in trading portfolio assets in Macquarie Securities and a reduction in payables to financial institutions due to reduced stock lending activity;
- Increased lending activity across the Bank, leading to growth in loan assets held at amortized cost, including:
  - Corporate & Asset Finance's loan and finance lease portfolio, which increased 29% to A\$28.7 billion at March 31, 2016 from A\$22.3 billion at March 31, 2015 mainly driven by the acquisition of the Esanda Portfolio in November 2015. The acquisition of the Esanda Portfolio resulted in an associated increase in payables to financial institutions as a result of funding requirements;
  - Banking & Financial Services' Australian mortgage portfolio, which increased 16% to A\$28.5 billion at March 31, 2016 from A\$24.5 billion at March 31, 2015 and included the acquisition of a residential mortgage portfolio of A\$1.2 billion during the year. This growth was partially offset by a reduction in the Canadian and US mortgage portfolios, which are in run-off and closed at a combined A\$1.6 billion at March 31, 2016, a decrease of 58% from A\$3.8 billion at March 31, 2015;
- Aircraft acquired during the year from AWAS Aviation Capital Limited resulted in growth of the operating lease portfolio within Corporate & Asset Finance of 68% to A\$10.6 billion at March 31, 2016 from A\$6.3 billion at March 31, 2015. The acquisition of aircraft from AWAS Aviation Capital Limited resulted in an associated increase in payables to financial institutions as a result of funding requirements;
- Increased deposits in Banking & Financial Services' mainly due to organic growth; and
- Increased loan capital primarily due to a US\$750 million subordinated debt issuance that qualifies as Tier 2 capital under Basel III rules.

Total equity increased 10% to A\$12.7 billion at March 31, 2016 from A\$11.6 billion at March 31, 2015, largely due to new share issuances and net retained earnings generated during the year.

**Loan assets**

This description of our funded loan assets is based on the funded balance sheet of MBL Group and not the statutory balance sheet classification.

|  | As at       |             | Movement  |
|--|-------------|-------------|-----------|
|  | Mar 16      | Mar 15      |           |
|  | A\$b        | A\$b        | %         |
| Loan assets at amortized cost per statutory balance sheet .....  | 78.9        | 71.2        | 11        |
| Other loans held at fair value <sup>1</sup> .....  | 0.2         | 0.3         | (33)      |
| Operating lease assets .....   | 10.6        | 6.3         | 68        |
| Other reclassifications <sup>2</sup> .....   | 1.6         | 1.4         | 14        |
| Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers <sup>3</sup> ..... | (15.8)      | (16.5)      | (4)       |
| Less: segregated funds <sup>4</sup> .....  | (4.4)       | (3.8)       | 16        |
| Less: margin balances (reclassified to trading) <sup>5</sup> .....   | (3.6)       | (4.8)       | (25)      |
| <b>Total per funded balance sheet<sup>6</sup> .....</b>  | <b>67.5</b> | <b>54.1</b> | <b>25</b> |

<sup>1</sup> Excludes other loans held at fair value that are self-funded.

<sup>2</sup> Reclassification between loan assets and other funded balance sheet categories.

<sup>3</sup> Excludes notes held by MBL Group in consolidated Special Purpose Entities (SPE).

<sup>4</sup> These represent the assets and liabilities that are recognized where MBL holds segregated client monies. The client monies will be matched by assets held to the same amount and hence does not require funding.

<sup>5</sup> For the purposes of the funded balance sheet, margin balances are treated as trading assets rather than loan assets.

<sup>6</sup> Total loan assets per the funded balance sheet include self-securitization assets.

For the 2016 and 2015 fiscal years, funded loan assets of MBL Group consisted of:

|  | Year ended  |             |            |
|--|-------------|-------------|------------|
|  | Mar-16      | Mar-15      | Movement   |
|  | \$Ab        | \$Ab        | %          |
| Corporate and Asset Finance                    |             |             |            |
| Asset Finance <sup>1</sup> :                   |             |             |            |
| Finance lease assets                           | 12.6        | 4.8         | 163        |
| Operating lease assets                         | 10.6        | 6.3         | 68         |
| Total Asset Finance                            | <b>23.2</b> | <b>11.1</b> | <b>109</b> |
| Lending <sup>2</sup>                           | 9.0         | 9.7         | (7)        |
| <b>Total Corporate and Asset Finance</b>       | <b>32.2</b> | <b>20.8</b> | <b>55</b>  |
| Banking and Financial Services                 |             |             |            |
| Retail Mortgages <sup>3</sup> :                |             |             |            |
| Australia                                      | 21.6        | 16.4        | 32         |
| Canada, US and Other                           | 1.5         | 4.5         | (67)       |
| Total Retail Mortgages                         | <b>23.1</b> | <b>20.9</b> | <b>11</b>  |
| Business banking <sup>4</sup>                  | 5.8         | 5.2         | 12         |
| <b>Total Banking and Financial Services</b>    | <b>28.9</b> | <b>26.1</b> | <b>11</b>  |
| Commodities and Financial Markets              |             |             |            |
| Resources and commodities <sup>5</sup>         | 3.0         | 3.0         | (0)        |
| Other <sup>6</sup>                             | 1.8         | 2.0         | (10)       |
| <b>Total Commodities and Financial Markets</b> | <b>4.8</b>  | <b>5.0</b>  | <b>(4)</b> |
| Macquarie Asset Management                     |             |             |            |
| Structured investments <sup>7</sup>            | 1.6         | 2.1         | (24)       |
| Macquarie Securities Group                     |             |             |            |
| Structured investments <sup>7</sup>            | 0.0         | 0.1         | (100)      |
| <b>Total</b>                                   | <b>67.5</b> | <b>54.1</b> | <b>25</b>  |

Explanatory notes concerning asset security of funded loan asset portfolio

<sup>1</sup> *Asset finance.* Secured by underlying financed assets (aircraft, motor vehicles and specialized equipment).

<sup>2</sup> *Lending.* Diversified corporate and real estate lending portfolio, predominantly consisting of loans which are senior, secured, well-covenanted and with a hold to maturity horizon.

<sup>3</sup> *Retail mortgages.*

Secured by residential property and supported by mortgage insurance to cover a portion of the mortgage portfolio:

- Australia: most loans are mortgage insured;
- United States: majority of loans where loan to value ratio is greater than 80% are mortgage insured; and
- Canada: most loans are fully insured with underlying government support.

<sup>4</sup> *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.

<sup>5</sup> *Resources and commodities.* Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets.

<sup>6</sup> *Other.* Predominantly relates to recourse loans to financial institutions, as well as financing for real estate and other sectors.

<sup>7</sup> *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.

### *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; and
- Interests in associates and joint ventures.

The classification is driven by a combination of the level of influence MBL Group has over the investment and management's intention with respect to the holding of the asset in the short-term.

The table below sets out the composition of these categories of equity investments for the 2016 and 2015 fiscal years.

### *Equity investments reconciliation*

|   | As at          |                |
|---|----------------|----------------|
|   | Mar 16<br>A\$b | Mar 15<br>A\$b |
| <b>Equity investments</b>   |                |                |
| <b>Statutory balance sheet</b>  |                |                |
| Equity investments within other financial assets at fair value through profit or loss ..... | 0.8            | 0.8            |
| Equity investments within investment securities available-for-sale .....                    | 0.4            | 0.3            |
| Interests in associates and joint ventures accounted for using the equity method .....      | 0.4            | 0.5            |
| <b>Total equity investments per statement of financial position .....</b>                   | <b>1.6</b>     | <b>1.6</b>     |
| <b>Adjustment for funded balance sheet</b>  |                |                |
| Equity hedge positions <sup>1</sup> .....   | (0.8)          | (0.8)          |
| <b>Total funded equity investments .....</b>  | <b>0.8</b>     | <b>0.8</b>     |
| <b>Adjustments for equity investments analysis</b>  |                |                |
| Available-for-sale and associates' reserves <sup>2</sup> .....                              | (0.1)          | -              |
| <b>Total adjusted equity investments<sup>3</sup> .....</b>                                  | <b>0.7</b>     | <b>0.8</b>     |

<sup>1</sup> These relate to assets held for the purposes of economically hedging MBL Group'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.

<sup>2</sup> Available-for-sale reserve on equity investments (gross of tax) that will be released to income upon realization of the investment, excluding investments in which MBL Group has no economic exposure; Associates' reserves (gross of tax) that will be released to income upon realization of the investment.

<sup>3</sup> The adjusted book value represents the total net exposure to MBL Group.



### *Euro-zone and other exposures*

This table includes MBL Group's exposures to certain Euro-zone countries that are currently experiencing significant economic, fiscal and/or political strains, due to which the likelihood of default by sovereign governments and non-sovereign entities based in those countries is higher than would be anticipated in the absence of such factors. The exposures below are represented gross unless cash collateral has been pledged, which is the case for certain derivative exposures. The total exposure to these countries is predominantly fully funded with minimal unfunded committed exposures.

MBL continues to monitor these exposures but notes that due to their size and associated security they are not considered to be material in relation to overall balance sheet size.

| Financial instrument                                | As at Mar 31, 2016 |                        |            |                             |
|---|--------------------|------------------------|------------|-----------------------------|
|   | Sovereign exposure | Non sovereign exposure |            | Total exposure <sup>3</sup> |
|   |                    | Financial institutions | Corporate  |                             |
|   | A\$m               | A\$m                   | A\$m       | A\$m                        |
| <b>Italy</b>  |                    |                        |            |                             |
| Loans, receivables & commitments <sup>1</sup> ..... | -                  | -                      | 46         | 46                          |
| Derivative assets <sup>2</sup> .....                | -                  | 2                      | 18         | 20                          |
| <b>Italy totals</b> .....                           | <b>-</b>           | <b>2</b>               | <b>64</b>  | <b>66</b>                   |
| <b>Spain</b>  |                    |                        |            |                             |
| Loans, receivables & commitments <sup>1</sup> ..... | -                  | -                      | 191        | 191                         |
| Derivative assets <sup>2</sup> .....                | -                  | 7                      | 81         | 89                          |
| Traded debt securities .....                        | 131                | -                      | -          | 131                         |
| <b>Spain totals</b> .....                           | <b>131</b>         | <b>7</b>               | <b>272</b> | <b>410</b>                  |
| <b>Portugal</b>                                     |                    |                        |            |                             |
| Loans, receivables & commitments <sup>1</sup> ..... | -                  | -                      | 41         | 41                          |
| Derivative assets <sup>2</sup> .....                | -                  | -                      | -          | -                           |
| <b>Portugal totals</b> .....                        | <b>-</b>           | <b>-</b>               | <b>41</b>  | <b>41</b>                   |
| <b>Ireland</b>                                      |                    |                        |            |                             |
| Loans, receivables & commitments <sup>1</sup> ..... | -                  | 3                      | 174        | 177                         |
| Derivative assets <sup>2</sup> .....                | -                  | 0                      | 78         | 78                          |
| Traded debt securities .....                        | -                  | 4                      | -          | 4                           |
| <b>Ireland totals</b> .....                         | <b>-</b>           | <b>7</b>               | <b>251</b> | <b>258</b>                  |
| <b>Total exposure</b> .....                         | <b>131</b>         | <b>16</b>              | <b>628</b> | <b>775</b>                  |

<sup>1</sup> Includes debt instruments held as loans, hold-to-maturity securities or available-for-sale securities, measured on an amortized cost basis. Includes finance lease receivables, but does not include assets which are on operating leases. Unfunded commitments are measured as the value of the commitment.

<sup>2</sup> Derivative asset exposures represent the sum of positive mark-to-market counterparty positions, net of any cash collateral held against such positions.

<sup>3</sup> Figures do not include our exposures to aircraft-related businesses due to the transient nature of these assets.

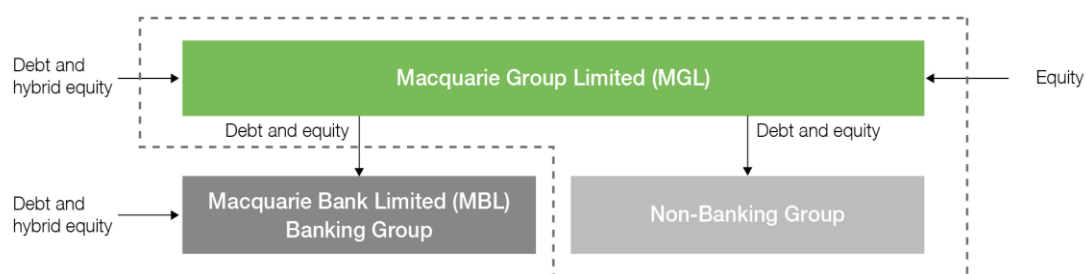
In addition, during the year ended March 31, 2016, the political situation in Russia and Ukraine continued to negatively affect market sentiment toward those countries. As of March 31, 2016, MBL's total credit and market exposure to Russia and Ukraine was not material.

## Liquidity risk governance and management framework

### *Governance and Oversight*

The two primary external funding vehicles for the Group 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 Group subsidiaries. MBL provides funding to the Bank Group.

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



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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (“ALCO”) and RMG. The respective Boards approve the MGL and MBL liquidity policies after endorsement by ALCO and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. ALCO includes the Chief Executive Officer, MBL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Treasurer, Head of Balance Sheet Management and Group Heads.

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

### *Liquidity policy and risk appetite*

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

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

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

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

### *Macquarie Bank Limited*

MBL's liquidity risk appetite is set so that MBL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12-month period of constrained access to funding markets and with only a limited impact on franchise businesses.

MBL is an Authorized Deposit-taking Institution ("ADI") and is funded mainly with capital, long-term liabilities and deposits.

### ***Liquidity Risk Tolerances and Principles***

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

#### ***Risk Tolerances***

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

#### ***Liquidity Management Principles***

- Macquarie has a centralized approach to liquidity management;
- liquidity risk is managed through stress scenario analysis and setting limits on the composition and maturity of assets and liabilities;
- a regional liquidity framework is maintained that outlines Macquarie's approach to managing funding and liquidity requirements in offshore subsidiaries and branches;
- the liquidity position is managed to ensure all obligations can be met as required on an intra-day 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 MBL and MGL Boards and senior management receive regular reporting on Macquarie's liquidity position, including compliance with liquidity policy and regulatory requirements.

#### ***Liquidity Contingency Plan***

Group Treasury maintains a liquidity contingency plan, which outlines how a liquidity ‘crisis’ would be managed across the entire consolidated entity. The liquidity contingency plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the liquidity contingency plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives responsible for managing a crisis, the information required to effectively manage a crisis, a communications strategy, a high-level check list of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency 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.

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

The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG, and is submitted to the Board for approval.

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

### ***Funding strategy***

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

### ***Management of Liquidity Risk***

#### *Scenario analysis*

Scenario analysis is central to Macquarie’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 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 each scenario;
- determining Macquarie’s minimum level of cash and liquid assets;
- determining the appropriate minimum tenor of funding for Macquarie’s assets; and
- determining the overall capacity for future asset growth.

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

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

### *Liquid asset holdings*

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets in both MGL and MBL to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and minimum regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High-Quality Liquid Assets (“*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’s liquidity requirements are broadly matched by currency. MBL Group had A\$28.9 billion cash and liquid assets as at March 31, 2016 (March 31, 2015: A\$23.8 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, recognizing the actual and contingent funding-related exposures their activities create for the Group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

### *Credit ratings*

As at March 31, 2016, the credit ratings for MBL Group were as follows:

| Rating agency <sup>1</sup>           | Macquarie Bank Limited |           |         |
|--------------------------------------|------------------------|-----------|---------|
|                                      | Short-term             | Long-term | Outlook |
| Fitch Ratings .....                  | F-1                    | A         | Stable  |
| Moody’s Investors Service....        | P-1                    | A2        | Stable  |
| Standard & Poor’s <sup>2</sup> ..... | A-1                    | A         | Stable  |

<sup>1</sup> 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.

<sup>2</sup> Standard & Poor’s does not place outlook statements on short-term ratings.

### *Regulatory developments*

The Australian Prudential Regulation Authority’s (“*APRA*”) liquidity standard (APS-210) details the local implementation of the Basel III liquidity framework for Australian banks. The standard incorporates the Liquidity Coverage Ratio (“*LCR*”) as well as a range of additional qualitative requirements.

### ***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 MBL’s regulatory minimum required level of cash and liquid assets.

Macquarie has been compliant with the LCR at all times since the ratio became a minimum requirement on January 1, 2015. MBL’s 3-month average LCR to March 31, 2016 was 173% (average based on month end observations). For a detailed breakdown of Macquarie’s LCR, please refer to the Pillar 3 documents, which are available on MBL’s U.S. Investors’ Website.

### ***Net Stable Funding Ratio***

The 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 12 months. The NSFR is currently subject to an observation period prior to being introduced as a minimum requirement in 2018. APRA have released a discussion paper on the NSFR, which is yet to be incorporated into local standards.

MBL has minimal reliance on short-term funding and has sufficient cash and liquid assets to repay all short-term wholesale funding. In addition, MBL’s internal liquidity policy requires that term assets are funded with term liabilities. MBL expects that it will meet the overall requirements of the NSFR, however, the impact will remain uncertain until the ratio is implemented into local standards.

MBL continues to monitor developing liquidity regulations.

### ***Funded balance sheet***

MBL’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 MBL.

The table below reconciles the reported assets of the consolidated MBL Group to the net funded assets at March 31, 2016.

The growth in MBL’s funded balance sheet over the last year was largely driven by the acquisitions of the Esanda Portfolio and an aircraft portfolio from AWAS Aviation Capital Limited, and growth in the Australian mortgage portfolio.

| <b>MBL Group</b>   | <u>As at</u>        |
|--|---------------------|
|  | <u>Mar 16</u>       |
|  | <b>A\$b</b>         |
| <b>Total assets per MBL statement of financial position</b> .....        | <b>181.6</b>        |
| Accounting deductions:   |                     |
| Self-funded trading assets <sup>1</sup> .....                            | (16.1)              |
| Derivative revaluation accounting gross-ups <sup>2</sup> .....           | (14.4)              |
| Life investment contracts and other segregated assets <sup>3</sup> ..... | (8.4)               |
| Outstanding trade settlement balances <sup>4</sup> .....                 | (2.1)               |
| Short-term working capital assets <sup>5</sup> .....                     | (3.6)               |
| Intercompany gross-ups.....  | (7.4)               |
| Non-recourse funded assets:  |                     |
| Securitized assets and other non-recourse funding <sup>6</sup> .....     | (15.0)              |
| Net funded assets .....  | <u><b>114.6</b></u> |

- <sup>1</sup> *Self-funded trading assets.* MBL 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, MBL 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.
- <sup>2</sup> *Derivative revaluation accounting gross-ups.* MBL 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.
- <sup>3</sup> *Life investment contracts and other segregated assets.* These represent the assets and liabilities that are recognized where MBL Group provides products such as investment-linked policy contracts or where MBL 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.
- <sup>4</sup> *Outstanding trade settlement balances.* At any particular time MBL 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 MBL Group is owed on other trades (receivables).
- <sup>5</sup> *Short-term working capital assets.* As with the outstanding trade settlement balances above, MBL 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.
- <sup>6</sup> *Securitized assets and other non-recourse funding.* These represent assets that are funded by third parties with no recourse to MBL Group including lending assets (mortgages and leasing) sold down into external securitization entities.

### **Term funding initiatives**

The table below sets out MBL Group's term funding transactions in the year ended March 31, 2016:

| <b>Funding source</b>                               | <u>Year ended</u>  |
|---|--------------------|
|   | <u>Mar 16</u>      |
|   | <b>Banking</b>     |
|   | <b>Group</b>       |
|   | <b>A\$b</b>        |
| <b>Secured Funding</b>                              |                    |
| Term securitization and other secured finance ..... | 4.4                |
| <b>Issued paper</b>                                 |                    |
| Senior and subordinated debt .....                  | 12.6               |
| Covered bond .....                                  | 0.8                |
| Syndicated loan facilities .....                    | 2.7                |
| <b>Total</b> .....                                  | <u><b>20.5</b></u> |

During the year ended March 31, 2016, MBL raised A\$20.5 billion of term funding, including A\$12.6 billion of term wholesale funding, A\$4.4 billion of term secured finance, A\$2.7 billion of syndicated loan facilities and A\$0.8 billion through a covered bond issuance. Term wholesale funding of A\$12.6 billion includes A\$6.9 billion in unsecured debt issuance in the United States market, A\$4.5 billion in private placements and structured notes and A\$1.2 billion in unsecured debt in Swiss and Australian markets. Term secured finance of A\$4.4 billion includes A\$1.9 billion of PUMA RMBS, A\$2.3 billion of SMART auto and equipment ABS and A\$0.2 billion of other

secured funding. Macquarie also raised A\$6.0 billion through the Esanda acquisition debt facility, of which A\$3.0 billion was repaid in April 2016 and A\$2.4 billion through the AWAS acquisition debt facility, which was refinanced in April 2016 with a 7 year term loan.



## Funding profile for the Banking Group

The funded balance sheet of the Banking Group as at March 31, 2016:

|   | As at        |             |
|---|--------------|-------------|
|   | Mar 16       | Mar 15      |
|   | A\$b         | A\$b        |
| <b>Banking Group</b>  |              |             |
| <b>Funding sources</b>  |              |             |
| Wholesale issued paper: <sup>1</sup>  |              |             |
| Negotiable certificates of deposit .....  | 0.4          | 1.4         |
| Commercial paper.....   | 8.9          | 11.1        |
| Net trade creditors <sup>2</sup> .....  | 1.4          | 1.9         |
| Structured notes <sup>3</sup> .....   | 3.0          | 2.0         |
| Secured funding <sup>4</sup> .....  | 4.5          | 4.7         |
| Bonds <sup>5</sup> .....  | 29.8         | 21.7        |
| Other loans <sup>6</sup> .....  | 0.2          | 0.2         |
| Syndicated loan facilities <sup>7</sup> .....   | 6.0          | -           |
| Customer deposits <sup>8</sup> .....  | 43.6         | 39.7        |
| Loan capital <sup>9</sup> .....   | 4.1          | 3.2         |
| Equity and hybrid <sup>10</sup> .....   | 12.7         | 11.6        |
| <b>Total</b> .....  | <b>114.6</b> | <b>97.5</b> |
| <br><b>Funded assets</b>  |              |             |
| Cash and liquid assets <sup>11</sup> .....  | 28.9         | 23.8        |
| Self securitization <sup>12</sup> .....   | 13.9         | 9.5         |
| Net trading assets <sup>13</sup> .....  | 20.4         | 20.6        |
| Loan assets including operating lease assets less than one year <sup>14</sup> .....       | 12.5         | 11.0        |
| Loan assets including operating lease assets greater than one year <sup>14</sup> .....    | 41.1         | 33.6        |
| Debt investment securities <sup>15</sup> .....  | 2.2          | 3.1         |
| Non-Banking Group deposit with MBL .....  | (6.2)        | (6.4)       |
| Co-investment in Macquarie-managed funds and other equity investments <sup>16</sup> ..... | 1.1          | 1.1         |
| Property, plant and equipment and intangibles.....  | 0.7          | 1.2         |
| <b>Total</b> .....  | <b>114.6</b> | <b>97.5</b> |

<sup>1</sup> *Wholesale issued paper.* Unsecured short-term wholesale funding comprised of both Negotiable Certificates of Deposit and Commercial Paper.

<sup>2</sup> *Net trade creditors.* Short-term working capital balances (debtors and creditors) are created through the day-to-day operations of MBL Group. A net funding use (or source) will result due to timing differences in cash flows.

<sup>3</sup> *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.

<sup>4</sup> *Secured funding.* Certain funding arrangements secured against an asset (or pool of assets).

<sup>5</sup> *Bonds.* Unsecured long-term wholesale funding.

<sup>6</sup> *Other loans.* Unsecured loans provided by financial institutions and other counterparties.

<sup>7</sup> *Syndicated loan facilities.* Loan facilities provided by a syndicate of wholesale lenders.

<sup>8</sup> *Customer deposits.* Unsecured funding from BFS, corporate and wholesale depositors. The Australian Government Financial Claims Scheme covers eligible deposits in MBL.

<sup>9</sup> *Loan capital.* Long-term subordinated debt, Bank Capital Notes and Exchangeable Capital Securities.

<sup>10</sup> *Equity and hybrid.* Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments include the MIS.

<sup>11</sup> *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.

<sup>12</sup> *Self securitization.* This represents Australian mortgages which have been internally securitized and is a form of collateral on the RBA's list of eligible securities for repurchase agreements.

<sup>13</sup> *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.

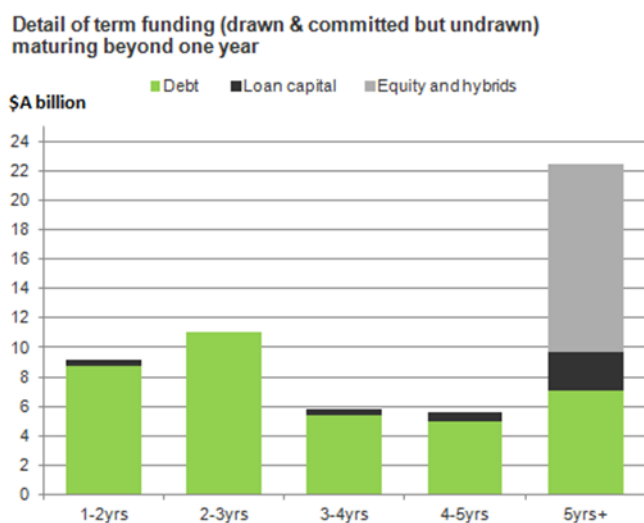
<sup>14</sup> *Loan assets including operating lease assets.* This represents loans provided to retail and wholesale borrowers, as well as assets held under operating leases. See “— Capital analysis — Loan assets” in this Report for further information.

<sup>15</sup> *Debt investment securities.* These include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

<sup>16</sup> *Co-investment in Macquarie-managed funds and other equity investments.* These equity securities include co-investments in Macquarie-managed funds.

As at March 31, 2016, customer deposits represented A\$43.6 billion, or 38% of total funding, short-term (maturing in less than 12 months) wholesale issued paper represented A\$9.3 billion, or 8% of total funding, and other debt funding maturing within 12 months represented A\$10.2 billion, or 9% of total funding.

The following chart and table provides details of the Banking Group’s term funding (drawn and committed but undrawn) maturing beyond one year, at March 31, 2016:



|  | As at<br>Mar 16 |                 |                 |                 |                | Total<br>A\$b |
|--|-----------------|-----------------|-----------------|-----------------|----------------|---------------|
|  | 1-2 yrs<br>A\$b | 2-3 yrs<br>A\$b | 3-4 yrs<br>A\$b | 4-5 yrs<br>A\$b | 5 yrs+<br>A\$b |               |
| <b>Banking Group</b>                                 |                 |                 |                 |                 |                |               |
| Structured notes <sup>1</sup> .....                  | 0.5             | 0.1             | 0.1             | 0.1             | 2.1            | 2.9           |
| Secured funding.....                                 | 0.1             | 2.4             | 0.1             | -               | 0.4            | 3.0           |
| Bonds.....   | 5.2             | 3.8             | 5.2             | 4.1             | 4.5            | 22.8          |
| Other loans.....                                     | -               | -               | -               | -               | -              | -             |
| Syndicated loan facilities <sup>2</sup> .....        | 3.0             | 3.0             | -               | -               | -              | 6.0           |
| <b>Total debt</b> .....                              | <b>8.8</b>      | <b>9.3</b>      | <b>5.4</b>      | <b>4.2</b>      | <b>7.0</b>     | <b>34.7</b>   |
| Loan capital <sup>3</sup> .....                      | 0.3             | -               | 0.4             | 0.7             | 2.7            | 4.1           |
| Equity and hybrid.....                               | -               | -               | -               | -               | 12.7           | 12.7          |
| <b>Total funding sources drawn</b> .....             | <b>9.1</b>      | <b>9.3</b>      | <b>5.8</b>      | <b>4.9</b>      | <b>22.4</b>    | <b>51.5</b>   |
| Undrawn.....   | -               | 1.8             | -               | 0.7             | -              | 2.5           |
| <b>Total funding sources drawn and undrawn</b> ..... | <b>9.1</b>      | <b>11.1</b>     | <b>5.8</b>      | <b>5.6</b>      | <b>22.4</b>    | <b>54.0</b>   |

<sup>1</sup> Structured notes with a contractual maturity of >5yrs are profiled using a behavioural maturity profile.

<sup>2</sup> Post March 31, 2016, Macquarie exercised its right to repay early A\$3.0 billion of syndicated loan facilities that were contractually due to mature more than 12 months after balance date.

<sup>3</sup> Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

The Bank Group 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 4.1 years at March 31, 2016. During April 2016, the AWAS acquisition debt facility was refinanced in full with a maturity profile greater than 5 years. In addition, A\$3.0 billion of the Esanda acquisition debt facility was repaid during April 2016. Taking these transactions into account, the adjusted weighted average term to maturity of term funding maturing beyond one year increased to 4.7 years

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

- US\$25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificates of Deposit, Euro Medium Term Notes, senior and subordinated fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had US\$13.9 billion of debt securities outstanding at March 31, 2016;
- US\$10 billion Commercial Paper Program under which US\$4.8 billion of debt securities were outstanding at March 31, 2016;
- US\$20 billion Rule 144A/Regulation S Medium Term Note Program under which US\$13.0 billion of issuances were outstanding March 31, 2016;
- US\$5 billion Structured Note Program under which US\$2.1 billion of funding from structured notes was outstanding at March 31, 2016;
- US\$1.8 billion AWAS Acquisition Debt Facility, under which US\$1.8 billion of secured funding was outstanding as at March 31, 2016<sup>1</sup>;
- A\$6 billion Esanda Acquisition Debt Facility under which A\$6 billion was outstanding at March 31, 2016<sup>2</sup>;
- £1.3 billion Sterling Facility which was undrawn at March 31, 2016; and
- A\$5 billion Covered Bond Program under which A\$0.7 billion of debt securities were outstanding at March 31, 2016

MBL Group accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposits. At March 31, 2016, MBL Group had A\$0.4 billion of these securities outstanding.

At March 31, 2016, MBL Group had internally securitized A\$13.9 billion of its own mortgages.

MBL, as an ADI, has access to liquidity from the RBA's daily market operations.

### ***Deposit strategy***

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

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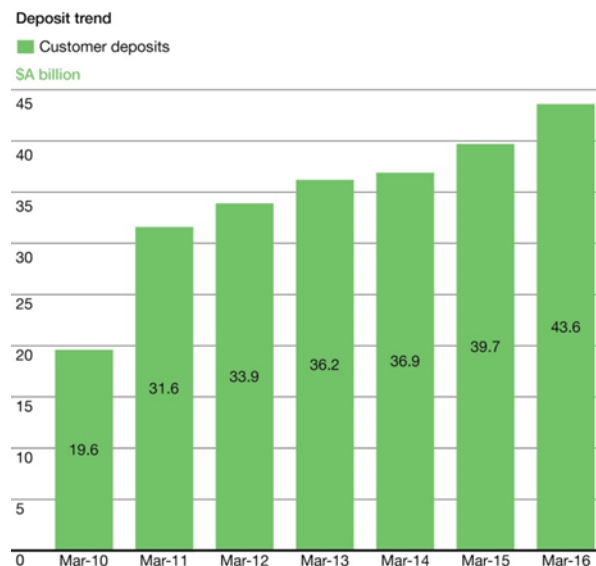
<sup>1</sup> The AWAS acquisition debt facility was reduced to US\$1.8 billion from US\$3.0 billion during the year ended March 31, 2016, and was refinanced into a term loan facility in April 2016.

<sup>2</sup> A\$3.0 billion of the Esanda acquisition debt facility was repaid in April 2016.

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 A\$250,000 per account holder.

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



***Lease commitments, contingent liabilities and assets***

We do not expect our lease commitments to have a significant effect on our liquidity needs. See Note 34 “Lease commitments” to our 2016 annual financial statements for further information. Lease commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at March 31, 2016, MBL Group had A\$6,798 million of contingent liabilities and commitments, including A\$1,231 million of contingent liabilities and A\$4,806 million of commitments in respect of undrawn credit facilities and securities underwriting. See Note 33 “Contingent liabilities and commitments” to our 2016 annual financial statements which shows MBL Group’s contingent liabilities and commitments at March 31, 2016.

***Quantitative and qualitative disclosures about market risk***

Each year we prepare a detailed analysis of market risk as it applies to MBL Group and a quantitative analysis of MBL Group’s value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 37 “Financial risk management” to MBL Group’s 2016 annual financial statements for a quantitative and qualitative discussion of these risks.



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