MACQUARIE BANK

2016 Annual Report

Macquarie Bank

Year ended 31 March 2016

MACQUARIE BANK LIMITED ACN 008 583 542

The Holey Dollar

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

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

Macquarie Bank 2016 Annual Report

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

2016 Annual General Meeting

Macquarie Bank's 2016 Annual General Meeting will be held on Thursday, 28 July 2016 in the Macquarie Auditorium, Level 10, 50 Martin Place, Sydney NSW 2000 after the Macquarie Group Limited Annual General Meeting but not earlier than 2:00pm. Details of the business of the meeting and venue will be contained in the Notice of Annual General Meeting, to be sent to shareholders separately.

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for the financial year ended 31 March 2016

Review of performance and financial position

Performance

Consolidated net profit attributable to ordinary equity holders of $A2,090 million for the year ended 31 March 2016 increased 91% from $A1,096 million in the prior year. This result represents profit from continuing operations of $A1,050 million (compared to $A906 million in the prior year) and profit from discontinued operations of $A1,040 million (compared to $A190 million in the prior year).

Continuing operations

Macquarie Bank Limited's (MBL, Macquarie Bank, the Company) annuity-style businesses – Macquarie Asset Management (MAM), Corporate and Asset Finance (CAF) and Banking and Financial Services (BFS) – continued to perform well, generating a combined net profit contribution for the year ended 31 March 2016 of $A1,544 million, an increase of 4% on the prior year, with both MAM and CAF favourably impacted by the depreciation of the Australian dollar relative to the prior year. MAM benefited from increased activity in the Macquarie Specialised Investment Solutions (MSIS) business, while CAF'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. BFS reported an improved net profit contribution largely driven by volume growth in Australian mortgages, business lending, deposits, and the Wrap platform.

Macquarie Bank's capital markets facing businesses – Macquarie Securities Group (MSG) and Commodities and Financial Markets (CFM) – delivered a combined net profit contribution for the year ended 31 March 2016 of $A732 million, a decrease of 5% on the prior year. Both of these businesses were favourably impacted by the depreciation of the Australian dollar relative to the prior year. MSG's net profit contribution was up significantly on the prior year due to increased income from improved trading opportunities, particularly in China in the first half of the year. CFM reported a lower net profit contribution driven by a decline in trading activity in the fourth quarter. The prior year benefited from fee income from the Freeport LNG Terminal transaction while the current year was impacted by challenging credit market conditions particularly in the northern hemisphere. These were partially offset by a strong contribution from the commodities platform driven by increased client activity resulting from price volatility during the year.

Net operating income of $A5,643 million for the year ended 31 March 2016 increased 7% from $A5,295 million in the prior year, largely due to:

- an 11% increase in combined net interest and trading income to $A4,296 million for the year ended 31 March 2016 from $A3,871 million in the prior year. All operating groups[1] contributed to the increase, primarily driven by:
  - improved trading opportunities in MSG driven by increased market volatility, particularly in China in the first half of the year
  - the impact of the depreciation of the Australian dollar, growth of the motor vehicle portfolio and the accretion of interest income on loans acquired at a discount in CAF
  - strong volume growth in Australian mortgages, business lending and deposits in BFS
  - a strong contribution from the commodities platform in CFM with customer flow underpinned by volatility in global commodity prices and strong client flows in foreign exchange and interest rates markets due to ongoing market volatility, partially offset by lower income as a result of challenging market conditions and subdued client risk appetite in secondary markets, which were influenced by a sell-off in US credit markets.
- a 4% increase in fee and commission income to $A930 million for the year ended 31 March 2016 from $A894 million in the prior year primarily due to an increase in brokerage and commissions income mainly due to the impact of the depreciation of the Australian dollar in MSG, and a performance fee in respect of a UK asset in BFS.
- a 28% decrease in other operating income and charges to $A395 million for the year ended 31 March 2016 from $A547 million in the prior year. The decrease was due to:
  - the non-recurrence of gains recognised in the prior year in CAF relating to the disposal of the North American railcar operating lease portfolio in January 2015, restructure of a railcar logistics operating lease facility in August 2014 and the sale of the Macquarie Equipment Finance US operations in March 2015
  - a 22% increase in net individually assessed provisions for impairment, write-offs and collective allowance for credit losses to $A497 million for the year ended 31 March 2016 from $A407 million in the prior year mainly due to the underperformance of certain commodity-related loans in CFM and portfolio growth as well as the underperformance of certain credits in CAF, partially offset by
  - a 43% increase in net operating lease income to $A895 million for the year ended 31 March 2016 from $A627 million in the prior year primarily due to the acquisition of an aircraft portfolio from AWAS Aviation Capital Limited during the year and the impact of the depreciation of the Australian dollar, partially offset by the impact of the divestment of the North American railcar operating lease portfolio in January 2015.

Total operating expenses increased 3% to $A3,907 million for the year ended 31 March 2016 from $A3,777 million in the prior year mainly due to:

- a 6% increase in brokerage, commission and trading-related expenses to $A640 million for the year ended 31 March 2016 from $A601 million in the prior year mainly driven by increased trading-related activity in MSG
- a 37% increase in non-salary technology expenses to $A151 million for the year ended 31 March 2016 from $A110 million in the prior year mainly due to the investment in technology projects to support business growth, particularly the Core Banking program in BFS

[1] The operating groups of MBL comprise MAM, CAF, BFS, MSG and CFM. In addition, there is a Corporate segment, which includes head office and central support functions including Group Treasury.

- a 6% increase in total other operating expenses to $A1,576 million for the year ended 31 March 2016 from $A1,480 million in the prior year largely driven by the impact of the depreciation of the Australian dollar on offshore expenses and acquisitions in CAF, 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 31 March 2016 was $A681 million, a 16% increase from $A589 million in the prior year, resulting in an effective tax rate of 39.0%.

Discontinued operations

Profit from discontinued operations (net of income tax) of $A1,040 million for the year ended 31 March 2016 represents profit from the sale of the Macquarie Investment Management (MIM) business to Macquarie Financial Holdings Pty Limited and its subsidiaries on 15 April 2015, as well as profit earned by MIM up until the sale date. Profit of $A190 million in the prior year represents profit from the MIM business.

Financial position

Balance sheet

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 $A181.6 billion at 31 March 2016 increased 5% from $A172.6 billion at 31 March 2015, while total liabilities increased 5% to $A168.9 billion at 31 March 2016 from $A161.0 billion at 31 March 2015.

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

- Treasury funding and liquidity management initiatives during the year ended 31 March 2016 including new issuances of long-term debt issued at amortised cost (partially offset by a decrease in short-term debt)
- a decline in market conditions in the second half of the year, that led to decreased trading opportunities, mainly in China, resulted in a reduction in trading portfolio assets in MSG and a reduction in payables to financial institutions due to reduced stock lending activity
- increased lending activity across the Company, leading to growth in loan assets held at amortised cost, including:
  - CAF's loan and finance lease portfolios, which increased 29% to $A28.7 billion at 31 March 2016 from $A22.3 billion at 31 March 2015 mainly driven by the acquisition of the Esanda dealer finance portfolio in November 2015. The acquisition of the Esanda dealer finance portfolio resulted in an associated increase in payables to financial institutions as a result of funding requirements
  - BFS' Australian mortgage portfolio, which increased 16% to $A28.5 billion at 31 March 2016 from $A24.5 billion at 31 March 2015 and included the acquisition of a residential mortgage portfolio of $A1.2 billion during the year. This growth was partially offset by a reduction in the Canadian and US mortgage portfolios, which are in run-off and closed at a combined $A1.6 billion at 31 March 2016, a decrease of 58% from $A3.8 billion at 31 March 2015.
- aircraft acquired during the year from AWAS Aviation Capital Limited resulted in growth of the operating lease portfolios within CAF of 68% to $A10.6 billion at 31 March 2016 from $A6.3 billion at 31 March 2015. The acquisition of aircraft from AWAS Aviation Capital Limited resulted in an associated increase in payables to financial institutions as a result of funding requirements
- increased deposits in BFS mainly due to organic growth
- increased loan capital primarily due to a $US750 million subordinated debt issuance that qualifies as Tier 2 capital under Basel III rules.

Total equity increased 9% to $A12.7 billion at 31 March 2016 from $A11.6 billion at 31 March 2015, largely due to new share issuances and net retained earnings generated during the year.

Funding

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year (excluding equity which is a permanent source of funding) was 4.1 years at 31 March 2016. During April 2016, the AWAS acquisition debt facility was refinanced in full with a maturity profile greater than 5 years. In addition, $A3.0 billion of the Esanda acquisition debt facility was repaid during April 2016. Taking these transactions into account, the adjusted weighted average term to maturity of term funding maturing beyond one year increased to 4.7 years.

As at 31 March 2016, customer deposits[(2)] represented $A43.6 billion, or 38% of the Company's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A9.3 billion, or 8% of total funding, and other debt funding maturing within 12 months represented $A9.8 billion, or 9% of total funding.

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

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

From 1 April 2015 to 31 March 2016, MBL Group raised $A20.5 billion of term funding including $A12.6 billion of term wholesale funding, $A4.4 billion of term secured finance, a $A2.7 billion syndicated loan facility and $A0.8 billion through a covered bond issuance. Wholesale term issuance of $A12.6 billion includes $A6.9 billion in unsecured debt issuance in the US market, $A4.5 billion in private placements and structured notes, and $A1.2 billion in unsecured debt in Swiss and Australian markets. Term secured finance of $A4.4 billion includes $A2.3 billion of SMART auto and equipment ABS, $A1.9 billion of PUMA RMBS and $A0.2 billion other secured funding.

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

Operating and Financial Review
for the financial year ended 31 March 2016
continued

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

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

Capital

The Consolidated Entity is well capitalised and as at 31 March 2016, Macquarie Bank had a Harmonised Basel III Common Equity Tier 1 Capital Ratio of 12.5% and a Harmonised Tier 1 Capital Ratio of 13.6%, with an Australian Prudential Regulation Authority (APRA) Common Equity Tier 1 Capital Ratio of 10.7% and an APRA Tier 1 Capital Ratio of 11.8%. Under Basel III rules, APRA requires authorised deposit-taking institutions (ADIs) to have a minimum ratio of capital to risk-weighted assets of 8%, with at least 6% of this capital in the form of Tier 1 capital and at least 4.5% of this capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI-specific minimum capital ratios which may be higher than these levels. Macquarie Bank's internal capital policy set by the Board requires capital floors above the regulatory required level. The Consolidated Entity has met all of its capital requirements throughout the year.

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

Business strategy

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

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

Risk management

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

The acceptance of risk is an integral part of the Company's businesses. Strong independent prudential management has been a key to the Company's success and stability over many years. The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities.

The key macroeconomic risks to the Company's short and medium-term financial outlook discussed on page 6 are as follows:

– **market conditions:** the general condition of markets, driven mainly by macroeconomic factors, will influence the volume of transactions that businesses experience. For example, an increase in market volatility may increase the income CFM derives from hedging transactions performed on behalf of clients. Market conditions can also influence the value of various equity, credit and market risk exposures held by Macquarie on its balance sheet. These risks are discussed further below

– **the value of the Australian dollar:** a significant proportion of the Company's net income is denominated in foreign currency. Therefore, net income will be lower in Australian dollar terms if it appreciates against these currencies.

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

– **conduct risk**: the risk of improper, unlawful, or unethical behaviour or action that may have a negative impact on Macquarie's clients or counterparties or the fair and effective operation of the markets in which the Company operates
– **regulatory and compliance risk:** the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Company may suffer as a result of its failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities (not including operational risk failures)
– **reputation risk:** the risk of loss arising from negative perceptions held by customers, shareholders, counterparties, regulators, market analysts, other relevant parties - including government bodies - and the broader community
– **credit risk:** the risk of a counterparty failing to complete its contractual obligations when they fall due. Examples of exposures that generate this risk include the Company advancing a loan to a retail or corporate client or when a capital markets facing business like CFM enters into a derivative contract. The consequent loss is either the amount of the loan not repaid or the loss incurred in replicating a trading contract with a new counterparty
– **market risk:** the risk of adverse changes in the value of the Company's trading portfolios from changes in market prices or volatility. The Company is exposed to risks in the foreign exchange and bullion, interest rates and debt securities, equities and commodities and energy markets. This risk resides primarily in the capital markets facing businesses
– **equity risk:** the risk of loss arising from banking book equity-type exposures
– **operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events
– **liquidity risk:** the risk that the Company is unable to meet its financial obligations as and when they fall due. Liquidity management is performed centrally by Group Treasury
– **legal risk:** the risk of loss arising from a breach of contract, law or regulation, the risk of litigation or regulatory enforcement or the risk that a contract is not capable of being enforced as expected
– **tax risk:** the risk of loss arising from the misinterpretation of tax regimes and the manner in which they may be applied and enforced
– **insurance risk:** the risks associated with the provision of life insurance policies. It includes lapse risk, claims risk, asset/liability mismatch risk and expense risk.

The risks above are monitored, mitigated and managed under Macquarie's risk management framework. This framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie Group that applies to all Macquarie businesses (including Banking Group entities). The framework is supported by a Macquarie-wide approach to policies and procedures, and Risk Management Group (RMG) consistently adopts the same level of rigour in relation to risk acceptance, monitoring and reporting for all Macquarie entities. The core risk management principles underlying the framework have remained stable and continue to be highly effective. These are:

– **ownership of risk at the business level:** Group Heads are responsible for identifying risks within their businesses and operations, and ensuring appropriate management. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of Macquarie.
– **understanding worst-case outcomes:** Macquarie's risk management approach examines the consequences of worst case outcomes and determines whether these are acceptable. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, Macquarie's market risk management framework is based primarily on the application of stress tests, rather than statistical models. Macquarie operates a number of sophisticated quantitative risk management processes. The foundation of Macquarie's risk management approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals
– **requirement for an independent sign-off by risk management:** Macquarie places significant importance on having a strong independent RMG charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. Therefore, RMG has invested in recruiting skilled professionals, many with previous trading or investment banking experience. For all material proposals, RMG's opinion is sought at an early stage in the decision-making process and the approval document submitted to senior management includes independent input from RMG on risk and return.

More information on Macquarie's financial risk management framework is available on the Macquarie website at macquarie.com/leadership-corporate-governance

Operating and Financial Review

for the financial year ended 31 March 2016

continued

Outlook

While the impact of future market conditions makes forecasting difficult, it is currently expected that the combined net profit contribution from operating groups for the financial year ending 31 March 2017 will be up on the financial year ended 31 March 2016.

The tax rate for the financial year ending 31 March 2017 is currently expected to be down on the financial year ended 31 March 2016.

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

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

This is the end of the Operating and Financial Review.

Directors' Report
for the financial year ended 31 March 2016

In accordance with a resolution of the Directors of Macquarie Bank Limited, the Directors submit the income statements and the cash flow statements for the year ended 31 March 2016 and the balance sheet as at 31 March 2016 of the Consolidated Entity and the Bank at the end of, and during, the financial year ended on that date and report as follows:

Directors

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

Independent Directors

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

Executive Voting Directors

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

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

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

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

(1) Mr Warne replaced Mr McCann as Chairman of Macquarie Bank Limited effective on Mr McCann's retirement.

Principal activities

The principal activity of the Consolidated Entity during the financial year ended 31 March 2016 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. The Bank is a subsidiary of Macquarie Group Limited and is regulated by the APRA as an ADI. In the opinion of the Directors, there were no significant changes to the principal activities of the Consolidated Entity during the financial year under review not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2016 and 31 March 2015, and the results have been prepared in accordance with Australian Accounting Standards.

The consolidated profit after income tax attributable to ordinary equity holders for the financial year ended 31 March 2016 was $A2,090 million (2015: $A1,096 million). This result represents profit from continuing operations of $A1,050 million (2015: $A906 million) and profit from discontinued operations of $A1,040 million (2015: $A190 million).

Directors' Report
for the financial year ended 31 March 2016
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Dividends and distributions

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

Security	Payment date	Payment type	$A	In respect of financial year ended/period	
Ordinary shares	1 July 2015	Special Dividend(1)	1,140,000,000	31 March 2016	Paid
	27 May 2015	Final Dividend	440,000,000	31 March 2015	Paid
Macquarie Income Securities(2)	15 April 2015	Periodic	4,379,178	15 January 2015 to 14 April 2015	Paid
	15 July 2015	Periodic	3,959,123	15 April 2015 to 14 July 2015	Paid
	15 October 2015	Periodic	3,881,643	15 July 2015 to 14 October 2015	Paid
	15 January 2016	Periodic	3,891,725	15 October 2015 to 14 January 2016	Paid
	15 April 2016	Periodic	3,383,780	15 January 2016 to 31 March 2016	Provided
Macquarie Income Preferred Securities(3)	15 April 2015	Periodic	2,558,421	16 October 2014 to 14 April 2015	Paid
	21 June 2015	Periodic	961,662	15 April 2015 to 21 June 2015	Paid

(1) Includes cash distribution of $1,009 million and in-specie distribution of $131 million by the Consolidated Entity.

(2) Macquarie Income Securities (MIS) are stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note), and a preference share in Macquarie Bank. The MIS are quoted on the ASX. The MIS distributions set out above represent payments made, or to be made, by MFL to MIS holders, in respect of the MFL note component of the MIS. The payments are not dividends or distributions paid or provided by Macquarie Bank to its members. The MIS are classified as equity under Australian Accounting Standards – see Note 27 to the financial statements in the Financial Report for further information on the MIS and MIS distributions.

(3) Macquarie Income Preferred Securities (MIPS) were limited partnership interests in Macquarie Capital Funding LP (Partnership), a partnership established in Jersey as a limited partnership, which are traded on the Luxembourg Stock Exchange. In certain circumstances, preference shares issued by Macquarie Bank and held by the general partner of the Partnership may be substituted for the MIPS. The assets of the Partnership include convertible debentures issued by Macquarie Bank (acting through its London Branch) that are listed on the Channel Islands Stock Exchange. The MIPS distributions set out above represent payments made, or to be made, by the Partnership to the MIPS holders. The payments are not dividends or distributions paid or provided by MBL to its members. The MIPS are classified as equity under Australian Accounting Standards – see Note 28 to the financial statements in the Financial Report for further information on the MIPS and MIPS distributions.

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

State of affairs

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

Operating and financial review

Please refer to the Operating and Financial Review section on pages 2 to 6 for the following in respect of the Consolidated Entity, which includes:

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

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

Directors' relevant interests

At 6 May 2016, none of the Directors held a relevant interest, as required to be notified by the Directors to the Australian Securities Exchange (ASX) in accordance with the Corporations Act 2001 (Cth) (the Act), in ordinary shares or share options of Macquarie Bank. The relevant interests of Directors in Macquarie Bank securities, managed investment schemes made available by related companies of Macquarie Bank and other disclosable relevant interests are listed in the table below:

Name and Position	Direct and Indirect Interests	
Executive Voting Directors		
M.J. Reemst	Macquarie ordinary shares (MQG)	10,850
	Macquarie Group Employee Retained Equity Plan (MEREP) Restricted Share Units (RSUs)	87,520
	MEREP Performance Share Units (PSUs)	26,369
N.W. Moore	MQG	1,849,118
	MEREP RSUs	625,050
	MEREP PSUs	272,828
	2004 Macquarie Timber Land Trust units	50
	2006 Macquarie Timber Land Trust units	75
	Macquarie Global Infrastructure Fund III (B) units	2,163,106
Independent Directors		
G.R. Banks	MQG	4,916
G.M. Cairns	MQG	12,734
	Macquarie Income Securities	900
M.J. Coleman	MQG	7,199
	Macquarie Group Capital Notes 2 (MCN2)	2,000
P.A. Cross	MQG	7,636
D.J. Grady	MQG	7,578
	Macquarie Group Capital Notes (MCN)	400
	MCN2	100
M.J. Hawker	MQG	7,335
	MCN2	500
N.M. Wakefield Evans	MQG	4,177
P.H. Warne	MQG	14,933

Directors' Report
for the financial year ended 31 March 2016
continued

Meeting attendance

Directors' meetings

Board meetings

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

	Monthly Board meetings (12)		Special Board meetings (1)	
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
H.K. McCann	12	12	1	1
M.J. Reemst	12	12	1	1
N.W. Moore	12	12	1	1
G.R. Banks	12	12	1	1
G.M. Cairns	12	10	1	0
M.J. Coleman	12	12	1	1
P.A. Cross	12	12	1	1
D.J. Grady	12	11	1	1
M.J. Hawker	12	12	1	1
N.M. Wakefield Evans	12	12	1	1
P.H. Warne	12	12	1	1

Board Committee meetings

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

	Board Audit Committee meetings (7)[1]		Board Risk Committee meetings (6)[2]	
	Eligible to attend as a member	**Attended as a member**	**Eligible to attend as a member**	**Attended as a member**
H.K. McCann	-	-	6	6
G.R. Banks	-	-	6	6
G.M. Cairns	-	-	6	5
M.J. Coleman	7	7	6	6
P.A. Cross	7	7	6	6
D.J. Grady	-	-	6	6
M.J. Hawker	7	7	6	6
N.M. Wakefield Evans	7	7	6	6
P.H. Warne	-	-	6	6

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

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

There were two Board sub-committees convened during the period. For the first sub-committee there was one meeting held, which was attended by both eligible sub-committee members, being Mr McCann and Mr Coleman. For the second sub-committee, there were two meetings held. Both meetings were attended by all the eligible sub-committee members, being Mr McCann, Mr Moore, Ms Reemst, Mr Coleman and the Chief Financial Officer (CFO), Mr Upfold.

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

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

Directors' Report
for the financial year ended 31 March 2016
continued

Directors' and officers' indemnification and insurance

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

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

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

Under the Deed, Macquarie Bank agrees to:

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

In addition, following the approval of shareholders at the 1999 AGM, Macquarie Bank made an Indemnity and Insurance Deed Poll on 30 July 1999 (Deed Poll). Minor changes were made to the Deed Poll under approvals obtained from shareholders at the 2000 AGM. The benefit of the undertakings made by Macquarie Bank under the Deed Poll were given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of Macquarie Bank, its wholly-owned subsidiaries and other companies where the person was acting as such at the specific request of Macquarie Bank or a wholly-owned subsidiary of Macquarie Bank. The Deed Poll provides for the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed described above. However, the Deed Poll does not provide for access to documents of Macquarie Bank.

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

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

Environmental regulations

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

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

Auditor’s independence declaration

A copy of the auditor’s independence declaration as required under section 307C of the Act is set out in the Directors’ Report Schedule 3 following this report.

Non-audit services

Fees paid or payable to the auditor of the Consolidated Entity, PricewaterhouseCoopers (PwC), for non-audit services during the period ended 31 March 2016 total $A4.9 million. Further details of amounts paid or payable to PwC and its related practices are disclosed in Note 41 - Audit and other services provided by PwC in the Financial Report.

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

– the operation of the Consolidated Entity’s Auditor Independence Policy, restricts the external auditor from providing non-audit services under which the auditor assumes the role of management, becomes an advocate for the Consolidated Entity, or audits its own professional expertise or creates a mutual or conflicting interest between the auditor and the Consolidated Entity. The policy also provides that significant permissible non-audit assignments awarded to the external auditor must be approved in advance by the BAC or the BAC Chairman, as appropriate
– the BAC has reviewed a summary of non-audit services provided by PwC, including details of the amount paid or payable to PwC for non-audit services, and has provided written advice to the Board of Directors.

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

Rounding of amounts

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

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

Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance that has arisen that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in the financial years subsequent to 31 March 2016.

Peter Warne

Independent Director and
Chairman

Mary Reemst

Managing Director and
Chief Executive Officer

Sydney
6 May 2016

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

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

Independent Chairman since April 2016
Member – Board Risk Committee

Peter Warne joined the Board of Macquarie Bank as an Independent Voting Director in July 2007 and has been a member of the Board of Macquarie Group since August 2007. Mr Warne became Chairman of the Macquarie Bank and Macquarie Group Boards in April 2016.

Experience

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

Listed company directorships

(held at any time in the last three years)

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

Other current directorships/appointments

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

Mr Warne is a resident of New South Wales.

Mary J Reemst, BA (Macquarie), Dip Fin Mgt (Accountancy) (UNE), MAICD (age 58)

Managing Director and Chief Executive Officer since July 2014

Ms Reemst was appointed Managing Director and Chief Executive Officer of Macquarie Bank effective from July 2014.

Experience

Mary Reemst joined Macquarie in 1999, having held senior investment banking roles at Bankers Trust Australia.

Ms Reemst was Head of Credit in the Risk Management Group for 11 years, with oversight of Macquarie's wholesale and retail exposures, including lending, trading activities, equity investments and new products.

Other current directorships/appointments

- Director, Australian Bankers' Association
- Director, Financial Markets Foundation for Children
- Director, Australian Financial Markets Association.

Ms Reemst is a resident of New South Wales.

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

Nicholas Moore joined the Board of Macquarie Bank as an Executive Voting Director in May 2008 and became an Executive Voting Director of Macquarie Group in February 2008.

Experience

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

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

Other current directorships/appointments

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

Mr Moore is a resident of New South Wales.

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

Member – Board Risk Committee

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

Experience

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

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

Other current directorships/appointments

- Chief Executive and Dean, the Australia and New Zealand School of Government
- Chairman, Regulatory Policy Committee of the OECD
- Member, Advisory Board of the Melbourne Institute, University of Melbourne
- Adjunct Professor, Australian National University
- Professorial Fellow, Melbourne University.

Mr Banks is a resident of Victoria.

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

Member – Board Risk Committee

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

Experience

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

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

Listed company directorships

(held at any time in the last three years)

- Chairman, Woolworths Limited (since September 2015)
- Chairman, Origin Energy Limited (since October 2013) (Director since June 2007)
- Chairman, David Jones Limited (from March 2014 to August 2014)
- Director, Westpac Banking Corporation (from July 2004 to December 2013).

Other current directorships/appointments

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

Mr Cairns is a resident of New South Wales.

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

for the financial year ended 31 March 2016 continued

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

Chairman – Board Audit Committee
Member – Board Risk Committee

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

Experience

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

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

Other current directorships/appointments

– Member, Audit Committee of the Reserve Bank of Australia
– Chairman, Reporting Committee of the Australian Institute of Company Directors (AICD)
– Member, National Board and NSW Council, AICD
– Chairman, Planet Ark Environmental Foundation
– Adjunct Professor, Australian School of Business, University of New South Wales.

Mr Coleman is a resident of New South Wales.

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

Chairman – Board Risk Committee
Member – Board Audit Committee

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

Experience

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

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

Listed company directorships

(held at any time in the last three years)

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

Other current directorships/appointments

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

Mrs Cross is a resident of Victoria.

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

Member – Board Risk Committee

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

Experience

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

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

Listed company directorships

(held at any time in the last three years)

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

Other current directorships/appointments

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

Ms Grady is a resident of New South Wales.

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

Member – Board Audit Committee
Member – Board Risk Committee

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

Experience

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

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

Listed company directorships

(held at any time in the last three years)

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

Other current directorships/appointments

– Chairman, the George Institute for Global Health
– Director, the George Institute for Global Health (UK)
– Director, Rugby World Cup Limited.

Mr Hawker is a resident of New South Wales.

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

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

Member – Board Audit Committee
Member – Board Risk Committee

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

Experience

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

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

Listed company directorships

(held at any time in the last three years)

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

Other current directorships/appointments

– Director, BUPA Australia and New Zealand Group
– Director, Asialink, University of Melbourne
– Member, Advisory Council, University of New South Wales Law School
– Member, Takeovers Panel

Ms Wakefield Evans is a resident of New South Wales.

Company secretaries' qualifications and experience

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

Company Secretary since October 1993

Dennis Leong is an Executive Director of Macquarie and Head of Macquarie's Corporate Governance Division that is responsible for the Group's company secretarial requirements, general and professional risks insurances and employee equity plans. He has over 22 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Paula Walsh, ACIS

Assistant Company Secretary since May 2008

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

Ida Lawrance, BCom (Hons) (Queens), DipLaw (LPAB), LLM (UNSW), AGIA

Assistant Company Secretary since January 2014

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

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2016

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2016
continued

Introduction

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

During the year, the Macquarie Board and the Board Remuneration Committee (BRC) have reviewed Macquarie's remuneration framework to ensure it continues to meet its overriding objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and the long-held foundations of Macquarie's risk culture, the principles of *What We Stand For* – Opportunity, Accountability and Integrity. In undertaking this assessment, the Board and the BRC have considered factors including:

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

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

Macquarie's remuneration framework

This section explains the objectives and principles of the remuneration system.

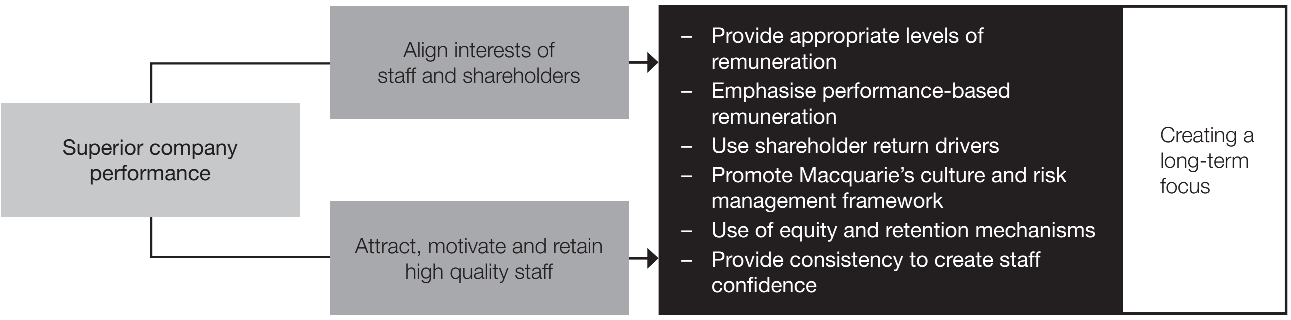
Macquarie's remuneration framework continues to support the overarching objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*. Directors recognise that to achieve this objective, Macquarie must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders.

They consider this is best achieved by supporting the following principles:

- remunerating high performing staff appropriately, relative to global peers, so they are attracted to and stay with Macquarie
- emphasising performance-based remuneration with an appropriate balance between short-term and long-term incentives having regard to risk
- linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital
- ensuring remuneration is structured to drive behaviours which reflect Macquarie's culture and promote Macquarie's risk management framework
- delivering remuneration in a way that encourages a long-term perspective and creates alignment with shareholder interests
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives.

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

Overall remuneration objectives and principles



Risk considerations

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

To assist the BRC:

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

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

Macquarie's remuneration framework works as an integrated whole. It comprises fixed remuneration, a profit share scheme and, for the Group's most senior executives, the Executive Committee, PSUs. The way in which these three elements work together as part of an integrated framework to support the objectives and principles is outlined in the diagram on the following page.

Directors' Report Schedule 2 – Remuneration Report

for the financial year ended 31 March 2016

continued

Fixed remuneration

Determine fixed remuneration

Fixed remuneration

- modest compared with similar roles in other organisations but sufficient to avoid inappropriate risk-taking
- compared with profit share, generally higher for risk and financial control staff than for front office staff
- reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements
- no fixed remuneration increases proposed for Executive Committee members for FY2017.

Performance-based remuneration

Company-wide
- Profit share
- PSUs

Profit share pool

- determined by reference to a proportion of Macquarie's after tax profits and its earnings over and above the estimated cost of capital
- potential for Non-Executive Directors (NEDs) to exercise discretion to adjust the size of the pool up or down
- PSU pool reflects Macquarie's overall performance.

Determine awards
- Profit share
- PSUs

Businesses and individuals

- determined in the context of the overall company-wide pool
- considers each business' relative contribution to profits (not revenue) taking into account factors including capital usage, risk management and compliance and competitor dynamics
- individual awards are based on performance. Performance criteria vary depending on an individual's role including:
  - financial performance
  - risk management and compliance
  - business leadership
  - people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.
- PSUs are only awarded to members of the Executive Committee.

Risk and financial control groups and other support groups

- based on the quality and integrity of control functions and the quality of business support services
- not determined solely with reference to profitability.

Structure and deliver performance-based remuneration

- create shareholder alignment by adopting an approach where a significant portion of performance-based remuneration is:
  - retained and deferred over a long period
  - delivered in equity
  - subject to forfeiture except in the case of genuine retirement, redundancy or other limited circumstances and for Executive Directors, subject to payout over two years post termination of employment dependent on specific criteria being met.
- apply Malus subject to conditions and the exercise of discretion by the Board consistent with employment legislation
- employ return on ordinary equity (ROE) and earnings per share (EPS) as PSU vesting hurdles.

Macquarie's remuneration structure

This section describes the way in which performance-based remuneration is structured and delivered to manage risk and create shareholder alignment.

Macquarie's remuneration structure emphasises performance-based remuneration, with an appropriate balance between short and longer-term incentives and an alignment with prudent risk-taking and professional conduct. The Board has discretion to change the remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments.

Profit share retention levels

Macquarie retains a percentage of each Executive Directors' annual gross profit share allocation (retained profit share).
The percentage is set according to their role. The Board has discretion to change the percentage of profit share allocations retained on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance guidance, provided that the retention percentage is at least 30% for Executive Directors.

Standard retention rates by role

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

(1) Executive Directors who have a significant management or risk responsibility in the organisation.
(2) Dependent on certain thresholds.

Investment of retained profit share

Executive Directors' retained profit share is invested in a combination of Macquarie shares under the MEREP(3) and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan(4). The following table shows the current percentage allocation of retained profit share that is invested in these two plans, depending on the Executive Director's role:

Role	Post-2009 DPS Plan (Macquarie-managed fund equity) %	MEREP (Macquarie shares) %
CEO Macquarie and CEO Macquarie Bank	10	90
Executive Committee members with Funds responsibilities	50	50
Other Executive Committee members	10 – 20	80 – 90
Executive Directors with Funds responsibilities	50 – 75	25 – 50
Other Executive Directors	10 – 20	80 – 90

For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity.

Both the MEREP and the DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The BRC reviews the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities. In limited circumstances, retained profit share may be allocated to other than the Post-2009 DPS Plan or the MEREP. An example might include investment in funds or products of a specific business group where there is a need to directly align the interests of employees with those of their specific types of clients.

(3) The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). For further details on the MEREP, refer to Note 32 to the financial statements in the Financial Report.
(4) The Post-2009 DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. Notional returns on retained profit share invested in the Post-2009 DPS Plan may be paid annually to Executive Directors. These amounts are required to be disclosed as remuneration for Executive Key Management Personnel (KMP), being the members of the Executive Committee. The notional returns are calculated based on total shareholder return. If the notional investment of retained profit share results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2016
continued

Vesting and release of profit share

Whilst employed, retained profit share vests and is released over a period that reflects the scope and nature of an individual's role and responsibilities. The vesting period is established for each retained profit share allocation by the BRC, according to the prevailing market conditions, having regard to regulatory and remuneration trends at the time of allocation. For each year's allocation, once the vesting period has been determined it will remain fixed for that allocation. The BRC has established the following release schedule for retained profit share invested in the Post-2009 DPS Plan and the MEREP:

Role	Release schedule
Executive Committee Members (including the Managing Director and CEOs of Macquarie and Macquarie Bank), Designated Executive Directors	one-fifth in each of years 3–7
Other Executive Directors	one-third in each of years 3–5
Staff other than Executive Directors	one-third in each of years 2–4

Vesting schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in jurisdictions outside Australia to ensure compliance with local regulatory requirements.

Forfeiture of retained profit share (Malus)

Since 2012, the Board or its delegate has had the ability to reduce or eliminate unvested profit share for certain senior employees in certain circumstances (Malus). The current Malus provisions provide the Board or its delegate with the ability to reduce or eliminate in full, the unvested profit share awarded in respect of FY2015 and subsequent years to certain senior employees if it determines that the individual has at any time:

- acted dishonestly (including, but not limited to, misappropriating funds or deliberately concealing a transaction)
- acted or failed to act in a way that contributed to a breach of a significant legal or significant regulatory requirement relevant to Macquarie
- acted or failed to act in a way that contributed to Macquarie, Macquarie Bank or any Group within Macquarie incurring:
  - significant reputational harm
  - a significant unexpected financial loss, impairment charge, cost or provision
- acted or failed to act in a way that contributed to MGL or MBL making a material financial restatement.

Each of the above is a Malus Event.

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations. This includes, for example, staff in the EU who are required to comply with the UK Regulators' Remuneration Code (EU Material Risk Takers, previously known as Code Staff). These individuals are subject to additional Malus and clawback provisions under these regulations.

Macquarie has always had and continues to have, the ability to terminate staff where a Malus Event has occurred, at which time any unvested profit share would be forfeited in full. The BRC considers whether, and the extent to which, to apply Malus, taking into account local employment laws, the nature and circumstances of the event and any other redress that has been or may be applied.

Early vesting and release of retained profit share

An Executive Director's unvested retained profit share is only paid out on termination of employment in the case of death, serious incapacitation, genuine retirement, redundancy, disability, serious ill-health or other limited exceptional circumstances. The Board, or its delegate, has discretion to accelerate the vesting of retained profit share under these circumstances (subject to the conditions of early release as set out below).

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in connection with strategic business objectives (including in connection with the divestment or internalisation of Macquarie businesses) or when a staff member resigns to fulfil a senior full-time role in a governmental organisation or agency. Where such discretion is exercised, the Board or its delegate may impose such other conditions as it considers appropriate. This year, such discretion has been exercised and retained profit share released for five executives.

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

In addition to the Malus provisions set out on page 24, the Board or its delegate may reduce or eliminate in full the retained profit share of any departing Executive Director for whom discretion has been exercised to accelerate the vesting of their retained profit share upon termination, if it determines that the Executive Director has at any time during or after their employment committed a Malus Event (as described above) or:

a) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
b) joined a competitor.

Each of the above is a Post Employment Event.

In the case of death or serious incapacitation, the Board or its delegate will typically accelerate the vesting of retained profit share and immediately release it to the Executive Director or, to the Executive Director's legal personal representative. In other circumstances, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the following table:

	First period	Second period	Third period
Time post departure	Six months	Six months – one year	One year – two years
Unvested retained profit share released	From all but the last two years of employment	From the second year prior to the end of employment	From the year prior to the end of employment
Subject to	No Malus Event or Post Employment Event	No Malus Event No Post Employment Event during First Period **and** no Post Employment Event (a) in Second Period	No Malus Event No Post Employment Event during First Period **and** no Post Employment Event (a) in Second Period

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

Directors' Report Schedule 2 – Remuneration Report
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Performance Share Units (PSUs)

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

Since their introduction, PSUs have been structured as DSUs[(1)] with performance hurdles. Holders have no right to dividend equivalent payments. In all other respects, holders of these PSUs have the same rights as holders of DSUs. There is no exercise price for PSUs. The following table summarises the key terms of PSUs and the performance hurdles:

Determination	– The Board approves the value of PSUs to be allocated to Executive Committee members each year – The aggregate value of PSUs to be allocated is determined with reference to profits over recent years.
Allocation	– The allocation to individuals[(2)] is based on: – role scope and complexity – financial and non-financial performance assessment against a range of factors including financial results, risk management and compliance, business leadership and people leadership – upholding the *Code of conduct* and *What We Stand For*.
Vesting	– Since 2012, PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles (refer pages 27 to 28) – Grants made prior to 2012 vested in three equal tranches after two, three and four years.
Upon leaving Macquarie	To ensure continued alignment with shareholders post termination, in cases of genuine retirement, PSUs continue to vest in accordance with the above vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit PSUs, when an Executive Committee member leaves Macquarie. To date, this discretion has not been exercised.

(1) A DSU is a Deferred Share Unit and is one of the award types under the MEREP. For further details, refer to Note 32 to the financial statements in the Financial Report.
(2) The allocation of PSUs to the Macquarie CEO, who is an Executive Voting Director, is subject to Macquarie shareholder approval.

Performance hurdles for PSUs

The PSU hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2016.

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

	EPS CAGR Hurdle	ROE Hurdle
Application to PSU awards	50%	50%
Performance measure	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years).	Relative average annual ROE over the vesting period (three to four years) compared with a reference group of global peers[1].
Hurdle	Sliding scale applies: – 50% becoming exercisable at EPS CAGR of 7.5% – 100% at EPS CAGR of 12%. For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable. For awards made prior to 2013, the EPS CAGR hurdle range was 9% to 13%.	Sliding scale applies: – 50% becoming exercisable above the 50th percentile – 100% at the 75th percentile. For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.
Rationale for hurdles	– ROE and EPS are considered appropriate measures of performance as they drive longer-term company performance and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool – ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors, including market sentiment, over which executives have limited control – ROE and EPS can be substantiated using information that is disclosed in audited financial statements – the use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk-taking – the approach is consistent with that advocated by APRA in not using TSR as a measure – Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee. Use of an international peer group recognises the extent of Macquarie's internationalisation. At 31 March 2016 approximately 68% of Macquarie's income and approximately 54% of Macquarie's staff were offshore.	

(1) The reference group comprises Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group for awards made from 2013 is Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG. The reference group for awards made prior to 2013 comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group AG, JP Morgan Chase, Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited).

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2016
continued

Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs at the calendar quarter-end immediately before vesting, based on the most recent financial year end results available. If the condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting.

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

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

(1) Peer group ROE at 50th percentile (2.69%) and peer group ROE at 75th percentile 26.32%
(2) Peer group ROE at 50th percentile (2.99%) and peer group ROE at 75th percentile 17.86%

PSUs that did not meet performance hurdles expired.

Other features of Macquarie's remuneration structure

Promotion awards

Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on seniority set with reference to an Australian dollar value.

Minimum Shareholding requirement

Executive Directors are required to hold a minimum amount of Macquarie shares, which is satisfied by the requirements of the profit share retention policy.

Hedging

Macquarie prohibits staff from hedging shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP.

Employment contracts

The following table summarises key features of the employment contracts for Executive Committee members including the CEO:

Length of contract	Permanent open-ended
Remuneration review period	1 April to 31 March annually
Profit share participation	Executive Committee members are eligible to be considered for a profit share allocation that ensures that a large part of their remuneration is 'at risk'. Refer to pages 23 to 25 for details.
PSU participation	Executive Committee members are eligible to receive PSUs. Refer to pages 26 to 28 for details.
Termination of employment	Requires no more than four weeks' notice(3) by Macquarie or the Executive Committee member.

(3) Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie may receive an additional week's notice if they are over 45 years of age and have more than two years' continuous service at the time of the termination of their employment.

Alignment of remuneration outcomes to results

Macquarie Bank's FY2016 results include the gain on sale on the transfer of the MIM business from the Bank to the Non-Bank. Net profit after tax (NPAT) is up 16% excluding the profit from discontinued operations and has increased by 91% when the profit from discontinued operations is included.

		FY16(1)	FY15(1)	FY16(2)	FY15(2)	FY14	FY13	FY12
NPAT attributed to ordinary equity holders	$A million	1,050	906	2,090	1,096	752	650	609
Return on average ordinary shareholders' funds (p.a.)	%	9.2	9.5	18.3	11.5	8.5	7.9	7.0

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

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

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for the financial year ended 31 March 2016
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Remuneration governance

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

Strong Board oversight

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

The BRC currently comprises five independent NEDs:

- Peter Warne (Chairman)[(1)]
- Gary Banks
- Gordon Cairns
- Diane Grady
- Michael Hawker[(2)].

The BRC members have the required experience and expertise in human resources and risk that enable them to achieve effective governance of Macquarie's remuneration system. All members of the BRC also have extensive experience in remuneration, either through their professional background or as members of the remuneration committees of other boards. The BRC has a regular meeting cycle and met eight times over the last financial year. Strict processes are in place to ensure that conflicts of interest are appropriately managed.

The responsibilities of the BRC include reviewing the *Remuneration Policy* for compliance with legal and regulatory requirements and recommending it to the Board for approval. The BRC pays close attention to the design and operation of remuneration practices for all of Macquarie, not just for the most senior executives. This includes assessing the effectiveness of the *Remuneration Policy* and ensuring the alignment of remuneration with prudent risk taking and professional conduct across the organisation. Specifically, the BRC reviews:

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

Each of these processes are discussed in more detail on page 21.

(1) Mr Warne will remain as Chairman of the BRC until 7 May 2016, after which time he will remain a member of the Committee.
(2) Mr Hawker joined the BRC on 1 January 2016 and will become Chairman of the BRC on 8 May 2016.

The remuneration governance framework requires that remuneration recommendations relating to staff at various levels of seniority be approved at an appropriate level of authority. Accordingly, the BRC recommends the remuneration outcomes to the Board for approval for the:

- CEOs of both Macquarie and Macquarie Bank
- Executive Committee members
- Designated Executive Directors
- Senior risk and financial control personnel
- Staff covered under specific regulatory requirements.

As part of this process the Macquarie Bank CEO meets with the NEDs of the Board towards the end of each financial year to consider formal documentation that outlines her views on the Bank's performance. The Bank's CEO's presentation includes a broad range of the Bank's activities covering the following main areas:

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

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

The Board and the BRC also consider formal documentation for each Executive Committee member, which covers financial performance, risk management and compliance, business leadership and people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

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

The full responsibilities of the BRC are outlined in their Charter, which is reviewed and approved annually by the Macquarie Board. A copy of the Charter is available on Macquarie's website at macquarie.com/leadership-corporate-governance

Independent remuneration review

The BRC has access, as required, to Macquarie's Senior Management and has retained an independent consultant, Pay Governance, for the use of the Board to obtain advice on the appropriateness of Macquarie's remuneration system.

The only service that Pay Governance provides to Macquarie is executive compensation consulting to the BRC. This year, Pay Governance considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The approximate cost of the Pay Governance Review was $US105,000.

Pay Governance has confirmed that its analysis and observations have been made free from undue influence by Macquarie's Executive KMP. The Board is satisfied that the remuneration review conducted by Pay Governance was made free from undue influence by the Executive KMP for the following reasons:

- the agreement for services was authorised by the Chairman of the BRC under delegated authority on behalf of Macquarie
- Pay Governance met with the BRC Chairman
- no Executive KMP had separate, direct contact with Pay Governance about the Pay Governance Review.

Pay Governance's findings included that:

- the objectives of Macquarie's remuneration system are similar to those cited by other leading global investment banks, including the need to drive company performance over the short and long-term, to align the interests of staff and shareholders, to attract and retain the right talent, and to structure and deliver remuneration without encouraging excessive risks
- Macquarie's remuneration components support its remuneration objectives and principles and are largely consistent with practices at peer global investment banks.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2016
continued

Non-Executive Director remuneration

Macquarie's remuneration approach ensures that the NEDs are appropriately remunerated. Reflecting the Board's role, the remuneration arrangements applicable to NEDs, as outlined in this section, differ from the arrangements applicable to Executives.

Non-Executive Director remuneration policy

The overall objective of Macquarie's NED remuneration policy is to ensure that NEDs are remunerated appropriately. It is achieved by:

- setting Board and Committee fees taking into account market rates for relevant Australian organisations for the time commitment and responsibilities involved
- delivering these fees in a form that is not contingent on Macquarie's performance.

Unlike Macquarie executives, NEDs are not granted equity, nor are they eligible to receive profit share payments. There are no, nor have there ever been, termination payments to NEDs on their retirement from office other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

The Macquarie Group CEO and the Macquarie Bank CEO are not remunerated separately for acting as Executive Voting Directors.

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

All NEDs of Macquarie are also NEDs of Macquarie Bank. This policy governs the remuneration of NEDs of both Macquarie and Macquarie Bank.

Board and Committee fees

NEDs are remunerated via Board and Committee fees that are reviewed annually. Per diem fees may also be paid from time to time for approved additional work. Macquarie's approach to NED remuneration is to set Board and Board Committee fees reflecting the time commitment and responsibilities involved, taking into account market rates for relevant organisations and market trends.

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

- the Board member annual base fee be increased by $A2,500
- the Board Chairman's annual fee be increased from $A240,000 to $A250,000.

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

Macquarie Bank fees

	Macquarie Bank fees	
	Chairman $A	**Member $A**
Board	250,000	72,500

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

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

Information on the frequency of Board and Committee meetings is included on pages 10 and 11 of the Directors' Report.

Appendices: Key Management Personnel (KMP) disclosures

Appendix 1: KMP

KMP include Executive Voting Directors and Executives with authority and responsibility for planning, directing and controlling the activities of Macquarie Bank and its controlled entities (together making Executive KMP) and NEDs. Macquarie Bank's NEDs are required by the Act to be included as KMP for the purposes of the disclosures in the Remuneration Report. However, the NEDs do not consider themselves part of Management. The table reflects KMP movements during FY2016 and FY2015. The key changes included:

Non-Executive Directors

- H.K. McCann retired as Chairman and as a Voting Director on 31 March 2016
- P.H. Warne replaced Mr McCann as Chairman effective on Mr McCann's retirement
- G.M. Cairns was appointed to the Board effective from 1 November 2014
- P.M. Kirby and H.M. Nugent AO retired from the Board on 24 July 2014
- N.M. Wakefield Evans was appointed to the Board effective from 7 February 2014

Executives

- G.C. Ward resigned from the Board on 30 June 2014, but remains a member of the Executive Committee
- M. J. Reemst was appointed to the Executive Committee and the Macquarie Bank Board effective from 1 July 2014
- B.A. Brazil and P.C. Upfold were appointed to the Executive Committee effective from 1 July 2014.

Name	Position	Term as KMP 2016	Term as KMP 2015
Executive Voting Director			
N.W. Moore(1)	Macquarie CEO	Full year	Full year
M.J. Reemst(1)	Macquarie Bank CEO	Full year	Part year
Non-Executive Directors			
G.R. Banks AO	Independent Director	Full year	Full year
G.M. Cairns	Independent Director	Full year	Part year
M.J. Coleman	Independent Director	Full year	Full year
P.A. Cross	Independent Director	Full year	Full year
D.J. Grady AM	Independent Director	Full year	Full year
M.J. Hawker AM	Independent Director	Full year	Full year
P.M. Kirby	Former Independent Director	–	Part year
H.K. McCann AM	Independent Chairman	Full year	Full year
H.M. Nugent AO	Former Independent Director	–	Part year
N.M. Wakefield Evans	Independent Director	Full year	Full year
P.H. Warne	Independent Director	Full year	Full year

Continued on the following page.

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Name	Position	Term as KMP 2016	Term as KMP 2015
Executives			
S.D. Allen[1]	CRO, Head of RMG	Full year	Full year
B.A. Brazil[1]	Co-Head of CAF	Full year	Part year
A.J. Downe[1]	Head of CFM	Full year	Full year
G.A. Farrell[1]	Co-Head of CAF	Full year	Full year
M. McLaughlin[1]	Country Head, United States of America	Full year	Full year
N. Sorbara[1]	Chief Operating Officer (COO), Head of COG	Full year	Full year
P.C. Upfold[1]	CFO, Head of FMG	Full year	Part year
S. Vrcelj[1]	Head of MSG	Full year	Full year
G.C. Ward[1]	Deputy Macquarie Managing Director and Head of BFS	Full year	Full year
S. Wikramanayake[1]	Head of MAM	Full year	Full year

(1) Members of Macquarie Bank's Executive Committee as at 6 May 2016.

Except where otherwise noted, the remuneration and other related party disclosures included in the Remuneration Report have been prepared in accordance with the requirements of the Act and in compliance with AASB 124 *Related Party Disclosures*. For the purpose of these disclosures, all the individuals listed above have been determined to be KMP, as defined by AASB 124 *Related Party Disclosures*.

Appendix 2: Statutory remuneration disclosures

Executive remuneration

The remuneration arrangements for all of the persons listed as Executive Voting Directors or Executives are described on pages 23 to 28.

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

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2016 will be granted during FY2017, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2015. The expense is estimated using Macquarie's share price as at 31 March 2016 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.32%, expected vest dates of PSU of 1 July 2019 and 1 July 2020, and a dividend yield of 4.57% per annum. In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

As explained on page 23, profit share amounts retained under the Post-2009 DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors and are included in the relevant remuneration disclosures below as part of Long-Term Employee Benefits (refer to the 'Earnings on prior year restricted profit share' column in the table on pages 36 and 37). When these amounts are negative, they are deducted from Long-Term Employee Benefits remuneration in the same column.

These earnings on retained DPS amounts reflect the investment performance of the assets in which prior year retained amounts have been notionally invested. Their inclusion in the individual remuneration disclosures on the following pages may, therefore, cause distortions when year-on-year remuneration trends are examined. They do not reflect remuneration review decisions made about the individual's current year performance.

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for the financial year ended 31 March 2016
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Executive Key Management Personnel Remuneration disclosure (in accordance with Australian Accounting Standards)

			Short-term Employee Benefits		
			Salary (including superannuation)	Performance related remuneration(1)	Total short-term employee benefits
			$A	$A	$A
Executive Voting Director					
N.W. Moore	Macquarie Managing Director and CEO	**2016**	**473,614**	**2,771,675**	**3,245,289**
		2015	540,506	3,150,895	3,691,401
Other Executives					
S.D. Allen	CRO, Head of RMG	**2016**	**501,832**	**1,636,000**	**2,137,832**
		2015	516,419	1,642,512	2,158,931
A.J. Downe(6)	Head of CFM	**2016**	**747,552**	**2,639,503**	**3,387,055**
		2015	709,213	4,746,033	5,455,246
G.A. Farrell	Co-Head of CAF	**2016**	**688,269**	**3,257,653**	**3,945,922**
		2015	686,471	3,985,507	4,671,978
M. McLaughlin(6)	Country Head, United States of America	**2016**	**506,850**	**–**	**506,850**
		2015	445,554	143,000	588,554
N. Sorbara	COO, Head of COG	**2016**	**404,151**	**1,169,045**	**1,573,196**
		2015	461,232	1,110,638	1,571,870
S. Vrcelj	Head of MSG	**2016**	**122,692**	**849,236**	**971,928**
		2015	115,616	15,156	130,772
G.C. Ward(7)	Macquarie Deputy Managing Director and Head of BFS	**2016**	**693,482**	**2,886,413**	**3,579,895**
		2015	693,698	2,368,097	3,061,795
S. Wikramanayake	Head of MAM	**2016**	**207,893**	**485,252**	**693,145**
		2015	469,691	2,815,667	3,285,358
Total Remuneration – Comparable Executive KMP(8)		**2016**	**4,346,335**	**15,694,777**	**20,041,112**
		2015	4,638,400	19,977,505	24,615,905
New Executive Voting Director					
M.J. Reemst(9)	Macquarie Bank Limited Managing Director and CEO	**2016**	**666,624**	**1,492,608**	**2,159,232**
		2015	424,512	1,003,884	1,428,396
New Executives					
B.A. Brazil(10)	Co-Head of CAF	**2016**	**701,256**	**6,733,695**	**7,434,951**
		2015	530,641	5,722,938	6,253,579
P.C. Upfold(10)	CFO, Head of FMG	**2016**	**558,578**	**1,967,390**	**2,525,968**
		2015	431,807	1,344,487	1,776,294
Total Remuneration – Executive KMP (including new and former executives)		**2016**	**6,272,793**	**25,888,470**	**32,161,263**
		2015	6,025,360	28,048,814	34,074,174

Long-term Employee Benefits			Share Based Payments				
Restricted profit share(2)	Earnings on prior year restricted profit share(3)	Total long-term employee benefits	Equity awards including shares(4)	PSUs(5)	Total share-based payments	Total Remuneration	Percentage of remuneration that consists of PSUs
$A	$A	$A	$A	$A	$A	$A	%
646,724	**130,997**	**777,721**	**3,685,560**	**1,804,913**	**5,490,473**	**9,513,483**	**18.97**
735,209	853,851	1,589,060	3,850,800	1,755,485	5,606,285	10,886,746	16.12
163,600	**45,595**	**209,195**	**1,054,578**	**1,050,170**	**2,104,748**	**4,451,775**	**23.59**
164,251	250,343	414,594	1,020,534	806,277	1,826,811	4,400,336	18.32
395,926	**456,183**	**852,109**	**3,403,178**	**2,279,063**	**5,682,241**	**9,921,405**	**22.97**
474,603	2,172,114	2,646,717	3,310,468	1,742,784	5,053,252	13,155,215	13.25
325,765	**152,967**	**478,732**	**2,585,618**	**2,389,938**	**4,975,556**	**9,400,210**	**25.42**
398,551	512,319	910,870	2,423,292	1,835,257	4,258,549	9,841,397	18.65
–	**–**	**–**	**–**	**–**	**–**	**506,850**	**0.00**
14,300	22,486	36,786	205,969	44,692	250,661	876,001	5.10
116,904	**13,545**	**130,449**	**550,543**	**834,245**	**1,384,788**	**3,088,433**	**27.01**
111,064	57,330	168,394	474,533	703,065	1,177,598	2,917,862	24.10
198,155	**12,507**	**210,662**	**804,483**	**1,138,383**	**1,942,866**	**3,125,456**	**36.42**
2,273	1,570	3,843	17,311	22,670	39,981	174,596	12.98
577,283	**70,281**	**647,564**	**1,807,280**	**2,118,635**	**3,925,915**	**8,153,374**	**25.98**
236,810	372,864	609,674	1,712,133	1,593,651	3,305,784	6,977,253	22.84
242,626	**24,538**	**267,164**	**145,121**	**154,946**	**300,067**	**1,260,376**	**12.29**
1,407,834	606,302	2,014,136	773,528	779,853	1,553,381	6,852,875	11.38
2,666,983	**906,613**	**3,573,596**	**14,036,361**	**11,770,293**	**25,806,654**	**49,421,362**	
3,544,895	4,849,179	8,394,074	13,788,568	9,283,734	23,072,302	56,082,281	
149,261	**50,881**	**200,142**	**924,529**	**740,077**	**1,664,606**	**4,023,980**	**18.39**
100,388	153,561	253,949	595,632	283,891	879,523	2,561,868	11.08
1,010,054	**99,881**	**1,109,935**	**5,416,565**	**1,068,468**	**6,485,033**	**15,029,919**	**7.11**
572,294	344,278	916,572	3,108,931	380,011	3,488,942	10,659,093	3.57
196,739	**18,280**	**215,019**	**1,057,140**	**548,712**	**1,605,852**	**4,346,839**	**12.62**
134,449	59,928	194,377	646,490	212,918	859,408	2,830,079	7.52
4,023,037	**1,075,655**	**5,098,692**	**21,434,595**	**14,127,550**	**35,562,145**	**72,822,100**	
4,352,026	5,406,946	9,758,972	18,139,621	10,160,554	28,300,175	72,133,321	

Continued on the following page.

Directors' Report Schedule 2 – Remuneration Report
for the financial year ended 31 March 2016
continued

Notes to the statutory remuneration disclosures

(1) The cash portion of each person's profit share allocation for the reporting period as an Executive KMP.

(2) The amount of retained profit share that is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS Plan).

(3) The earnings on restricted profit share as described on page 23.

(4) The current year expense for retained profit share that is invested in Macquarie shares under the MEREP as described on page 23. This is recognised as an expense over the respective vesting periods as described on pages 24 and 35.

(5) The current year expense for PSUs that is recognised over the vesting period as described on pages 26 and 35. Adjustments were made during the current and prior year to reduce previously recognised remuneration expense where performance hurdles were not met, have been partially met, or are not expected to be met.

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

Notes on individuals

(6) Mr Downe and Mr McLaughlin are paid in $SG and $US respectively. They have not received a base remuneration increase during the year. The base salary for FY2016 differs to FY2015 due to exchange rate movements.

(7) Mr Ward resigned from the MBL Board on 30 June 2014 but remains a member of the Executive Committee.

(9) Ms Reemst was appointed to the MBL Board and the Executive Committee effective from 1 July 2014.

(10) Mr Brazil and Mr Upfold were appointed to the Executive Committee effective from 1 July 2014.

Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as NEDs are described on page 32:

		Directors Fees $A	Other Benefits[1] $A	Total Compensation $A
G.R. Banks	**2016**	**71,250**	**–**	**71,250**
	2015	68,750	–	68,750
G.M. Cairns[2]	**2016**	**71,250**	**–**	**71,250**
	2015	29,167	–	29,167
M.J. Coleman	**2016**	**71,250**	**4,500**	**75,750**
	2015	68,750	2,400	71,150
P.A. Cross	**2016**	**71,250**	**–**	**71,250**
	2015	68,750	–	68,750
D.J. Grady	**2016**	**71,250**	**–**	**71,250**
	2015	68,750	–	68,750
M.J. Hawker	**2016**	**71,250**	**–**	**71,250**
	2015	68,750	–	68,750
P.M. Kirby[3]	**2016**	**–**	**–**	**–**
	2015	20,766	–	20,766
H.K. McCann[4]	**2016**	**245,000**	**–**	**245,000**
	2015	240,000	–	240,000
H.M. Nugent[5]	**2016**	**–**	**–**	**–**
	2015	20,766		20,766
N.M. Wakefield Evans	**2016**	**71,250**	**–**	**71,250**
	2015	68,750	–	68,750
P.H. Warne	**2016**	**71,250**	**–**	**71,250**
	2015	68,750	–	68,750
Total Remuneration – Non-Executive KMP	**2016**	**815,000**	**4,500**	**819,500**
	2015	791,949	2,400	794,349

(1) Other benefits for NEDs include due diligence committee fees paid to Mr Coleman of $A4,500 (2015: $A2,400).
(2) Mr Cairns was appointed to the MGL and MBL Boards on 1 November 2014.
(3) Mr Kirby retired from the MGL and MBL Boards on 24 July 2014.
(4) Mr McCann retired from the MGL and MBL Boards on 31 March 2016.
(5) Dr Nugent retired from the MGL and MBL Boards on 24 July 2014.

This Remuneration Report has been prepared in accordance with the Act. The Remuneration Report contains disclosures as required by Accounting Standard AASB 124 *Related Party Disclosures* as permitted by *Corporations Regulation 2M.3.03*.

Throughout this Remuneration Report financial information for Macquarie relating to the years ended 31 March 2012 through to 31 March 2016 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

This is the end of the Remuneration Report.

Directors' Report Schedule 3 – Auditor's independence declaration

for the financial year ended 31 March 2016

pwc

Auditor's independence declaration

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2016, I declare that to the best of my knowledge and belief, there have been:

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

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

K. G. Smith

K.G. Smith

Partner
PricewaterhouseCoopers

Sydney
6 May 2016

Liability limited by a scheme approved under Professional Standards Legislation.

Financial Report
for the financial year ended 31 March 2016
Contents

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

Income statements
for the financial year ended 31 March 2016

	Notes	**Consolidated 2016 $m**	Consolidated 2015 $m	**Bank 2016 $m**	Bank 2015 $m
Interest and similar income	2	**5,083**	4,641	**4,122**	3,555
Interest expense and similar charges	2	**(2,911)**	(2,630)	**(2,685)**	(2,329)
Net interest income		**2,172**	2,011	**1,437**	1,226
Fee and commission income	2	**930**	894	**577**	314
Net trading income	2	**2,124**	1,860	**1,371**	2,012
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	**22**	(17)	**–**	–
Other operating income and charges	2	**395**	547	**2,814**	879
Net operating income		**5,643**	5,295	**6,199**	4,431
Employment expenses	2	**(1,428)**	(1,466)	**(1,039)**	(1,032)
Brokerage, commission and trading-related expenses	2	**(640)**	(601)	**(440)**	(450)
Occupancy expenses	2	**(112)**	(120)	**(84)**	(93)
Non-salary technology expenses	2	**(151)**	(110)	**(120)**	(86)
Other operating expenses	2	**(1,576)**	(1,480)	**(1,221)**	(1,130)
Total operating expenses		**(3,907)**	(3,777)	**(2,904)**	(2,791)
Operating profit from ordinary activities before income tax		**1,736**	1,518	**3,295**	1,640
Income tax expense	4	**(681)**	(589)	**(276)**	(213)
Profit from ordinary activities after income tax		**1,055**	929	**3,019**	1,427
Profit/(loss) from discontinued operations, net of income tax	43	**1,040**	190	**641**	(32)
Profit from ordinary activities and discontinued operations after income tax		**2,095**	1,119	**3,660**	1,395
(Profit)/loss attributable to non-controlling interests:					
Macquarie Income Preferred Securities	5	**(1)**	(5)	**–**	–
Other non-controlling interests		**12**	–	**–**	–
Loss/(profit) attributable to non-controlling interests		**11**	(5)	**–**	–
Profit attributable to equity holders of Macquarie Bank Limited		**2,106**	1,114	**3,660**	1,395
Distributions paid or provided for on:					
Macquarie Income Securities	5	**(16)**	(18)	**–**	–
Convertible debentures	5	**–**	–	**(1)**	(5)
Profit/(loss) attributable to ordinary equity holders of Macquarie Bank Limited		**2,090**	1,096	**3,659**	1,390
From continuing operations		**1,050**	906	**3,018**	1,422
From discontinued operations	43	**1,040**	190	**641**	(32)

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

Statements of comprehensive income
for the financial year ended 31 March 2016

	Notes	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Profit from ordinary activities and discontinued operations after income tax		**2,095**	1,119	**3,660**	1,395
Other comprehensive income/(expense)[1]:					
Available for sale investments, net of tax	28	**41**	4	**(3)**	13
Cash flow hedges, net of tax	28	**(34)**	(60)	**(14)**	(5)
Share of other comprehensive income of associates and joint ventures, net of tax	28	**–**	1	**–**	–
Exchange differences on translation of foreign operations, net of hedge and tax	28	**(123)**	704	**5**	6
Other comprehensive income from discontinued operations, net of tax	43	**–**	28	**–**	–
Total other comprehensive (expense)/income		**(116)**	677	**(12)**	14
Total comprehensive income		**1,979**	1,796	**3,648**	1,409
Total comprehensive income is attributable to:					
Ordinary equity holders of Macquarie Bank Limited		**1,970**	1,767	**3,647**	1,404
Macquarie Income Securities holders		**16**	18	**–**	–
Macquarie Income Preferred Securities holders		**5**	11	**–**	–
Other non-controlling interests		**(12)**	–	**–**	–
Convertible debenture holders		**–**	–	**1**	5
Total comprehensive income		**1,979**	1,796	**3,648**	1,409

[1] All items of other comprehensive income/(expense) may be reclassified subsequently to profit or loss.

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

Statements of financial position
as at 31 March 2016

	Notes	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Assets					
Receivables from financial institutions	6	**30,956**	25,981	**28,295**	24,134
Trading portfolio assets	7	**23,062**	30,039	**18,156**	22,917
Derivative assets		**17,962**	19,952	**15,137**	17,437
Investment securities available for sale	8	**9,008**	6,345	**8,494**	5,406
Other assets	9	**6,918**	7,818	**4,338**	4,788
Loan assets held at amortised cost	10	**78,913**	71,206	**56,953**	47,711
Other financial assets at fair value through profit or loss	12	**1,057**	1,323	**1,005**	1,275
Due from related body corporate entities	30	**1,610**	1,163	**1,032**	986
Due from subsidiaries	30	**–**	–	**30,348**	33,102
Property, plant and equipment	13	**11,304**	6,743	**374**	390
Interests in associates and joint ventures accounted for using the equity method	14	**426**	471	**72**	68
Intangible assets	15	**224**	229	**142**	123
Investments in subsidiaries	16	**–**	–	**7,629**	3,671
Deferred tax assets	18	**169**	238	**279**	208
Assets of disposals group classified as held for sale	43	**–**	1,072	**–**	187
Total assets		**181,609**	172,580	**172,254**	162,403
Liabilities					
Trading portfolio liabilities	19	**4,794**	5,045	**4,824**	4,803
Derivative liabilities		**14,713**	18,100	**13,474**	16,736
Deposits	20	**52,228**	47,333	**50,952**	46,356
Other liabilities	21	**7,121**	9,262	**4,618**	5,904
Payables to financial institutions	22	**20,555**	14,874	**17,468**	14,655
Debt issued at amortised cost	23	**55,142**	53,033	**40,242**	35,149
Other financial liabilities at fair value through profit or loss	24	**2,307**	1,237	**4,062**	2,297
Due to related body corporate entities	30	**7,555**	7,700	**5,910**	7,084
Due to subsidiaries	30	**–**	–	**15,312**	15,531
Deferred tax liabilities	18	**406**	378	**138**	96
Liabilities of disposals group classified as held for sale	43	**–**	779	**–**	175
Total liabilities excluding loan capital		**164,821**	157,741	**157,000**	148,786
Loan capital					
Subordinated debt at amortised cost		**4,078**	3,240	**4,078**	3,240
Total loan capital	26	**4,078**	3,240	**4,078**	3,240
Total liabilities		**168,899**	160,981	**161,078**	152,026
Net assets		**12,710**	11,599	**11,176**	10,377
Equity					
Contributed equity	27	**9,882**	9,082	**9,808**	9,105
Reserves	28	**483**	603	**24**	36
Retained earnings	28	**2,333**	1,831	**1,344**	1,236
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**12,698**	11,516	**11,176**	10,377
Non-controlling interests	28	**12**	83	**–**	–
Total equity		**12,710**	11,599	**11,176**	10,377

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

Statements of changes in equity
for the financial year ended 31 March 2016

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Consolidated
Balance at 1 April 2014		8,101	(68)	1,388	9,421	77	9,498
Profit from ordinary activities after income tax		–	–	1,114	1,114	5	1,119
Other comprehensive income, net of tax		–	671	–	671	6	677
Total comprehensive income		–	671	1,114	1,785	11	1,796
Transactions with equity holders in their capacity as ordinary equity holders:							
Contribution of ordinary equity, net of transaction costs		950	–	–	950	–	950
Dividends and distributions paid or provided for	5,28	–	–	(671)	(671)	–	(671)
Non-controlling interests:							
Distributions paid or provided for	5,28	–	–	–	–	(5)	(5)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	27	31	–	–	31	–	31
		981	–	(671)	310	(5)	305
Balance at 31 March 2015		**9,082**	**603**	**1,831**	**11,516**	**83**	**11,599**
Profit from ordinary activities and discontinued operations after income tax		**–**	**–**	**2,106**	**2,106**	**(11)**	**2,095**
Other comprehensive (expense)/income, net of tax		**–**	**(120)**	**–**	**(120)**	**4**	**(116)**
Total comprehensive (expense)/income		**–**	**(120)**	**2,106**	**1,986**	**(7)**	**1,979**
Transactions with equity holders in their capacity as ordinary equity holders:							
Contribution of ordinary equity, net of transaction costs		**800**	**–**	**–**	**800**	**–**	**800**
Dividends and distributions paid or provided for	5,28	**–**	**–**	**(1,596)**	**(1,596)**	**–**	**(1,596)**
Non-controlling interests:							
Change in non controlling ownership interests		**–**	**–**	**(8)**	**(8)**	**(63)**	**(71)**
Distributions paid or provided for	5,28	**–**	**–**	**–**	**–**	**(1)**	**(1)**
		800	**–**	**(1,604)**	**(804)**	**(64)**	**(868)**
Balance at 31 March 2016		**9,882**	**483**	**2,333**	**12,698**	**12**	**12,710**

Statements of changes in equity
for the financial year ended 31 March 2016
continued

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Bank
Balance at 1 April 2014		8,157	22	499	8,678	–	8,678
Profit from ordinary activities after income tax		–	–	1,395	1,395	–	1,395
Other comprehensive income, net of tax		–	14	–	14	–	14
Total comprehensive income		–	14	1,395	1,409	–	1,409
Transactions with equity holders in their capacity as ordinary equity holders:							
Contribution of ordinary equity, net of transaction costs	27	950	–	–	950	–	950
Dividends and distributions paid or provided for	5,28	–	–	(658)	(658)	–	(658)
Other equity movements:							
Return of capital to ultimate parent entity in relation to share-based payments	27	(2)	–	–	(2)	–	(2)
		948	–	(658)	290	–	290
Balance at 31 March 2015		**9,105**	**36**	**1,236**	**10,377**	**–**	**10,377**
Profit from ordinary activities and discontinued operations after income tax		**–**	**–**	**3,659**	**3,659**	**–**	**3,659**
Other comprehensive expense, net of tax		**–**	**(12)**	**–**	**(12)**	**–**	**(12)**
Total comprehensive (expense)/income		**–**	**(12)**	**3,659**	**3,647**	**–**	**3,647**
Transactions with equity holders in their capacity as ordinary equity holders:							
Contribution of ordinary equity, net of transaction costs	27	**800**	**–**	**–**	**800**	**–**	**800**
Dividends and distributions paid or provided for	5,28	**–**	**–**	**(3,571)**	**(3,571)**	**–**	**(3,571)**
Other equity movements:							
Return of capital to ultimate parent entity in relation to share-based payments	27	**10**	**–**	**–**	**10**	**–**	**10**
Redemption of convertible debentures	27	**(107)**	**–**	**–**	**(107)**	**–**	**(107)**
Premium on redemption of convertible debentures		**–**	**–**	**20**	**20**	**–**	**20**
		703	**–**	**(3,551)**	**(2,848)**	**–**	**(2,848)**
Balance at 31 March 2016		**9,808**	**24**	**1,344**	**11,176**	**–**	**11,176**

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

Statements of cash flows
for the financial year ended 31 March 2016

	Notes	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Cash flows from/(used in) operating activities					
Interest received		**5,062**	4,397	**4,090**	3,413
Interest and other costs of finance paid		**(2,842)**	(2,670)	**(2,602)**	(2,382)
Dividends and distributions received		**53**	39	**840**	805
Fees and other non-interest income received		**2,465**	2,940	**959**	574
Fees and commissions paid		**(620)**	(769)	**(423)**	(402)
Net payments for trading portfolio assets and other financial assets/liabilities		**(1,379)**	(11,307)	**(2,631)**	(7,186)
Payments to suppliers		**(2,332)**	(1,539)	**(1,618)**	(813)
Employment expenses paid		**(1,470)**	(1,873)	**(1,171)**	(990)
Income tax paid		**(565)**	(127)	**(112)**	(83)
Life investment contract premiums received, disposal of investment assets and other unitholder contributions		**1,016**	1,392	**–**	–
Life investment contract payments, acquisition of investment assets and other unitholder redemptions		**(970)**	(1,331)	**–**	–
Net loan assets granted		**(1,080)**	(9,279)	**(9,279)**	(13,338)
Net margin money placed		**295**	(3,068)	**570**	(2,589)
Net increase in payables to other financial institutions, deposits and other borrowings		**15,021**	20,623	**15,577**	19,012
Proceeds from the disposal of operating lease assets		**36**	64	**–**	–
Payments for the acquisition of operating lease assets		**(730)**	(895)	**–**	–
Net cash flows from/(used in) operating activities	29	**11,960**	(3,403)	**4,200**	(3,979)
Cash flows (used in)/from investing activities					
Net (payments for)/proceeds from investment securities available for sale		**(2,549)**	3,103	**(2,881)**	2,798
Proceeds from the disposal of associates, subsidiaries and businesses, net of cash deconsolidated		**1,041**	1,423	**700**	1,092
Payments for the acquisition of associates, subsidiaries and businesses, net of cash acquired		**(12,427)**	(484)	**(4,203)**	(446)
Proceeds from the disposal of property, plant and equipment, finance lease assets and intangible assets		**26**	46	**–**	–
Payments for the acquisition of property, plant and equipment, finance lease assets and intangible assets		**(52)**	(102)	**(11)**	(160)
Net cash (used in)/from investing activities		**(13,961)**	3,986	**(6,395)**	3,284
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**800**	950	**800**	950
Proceeds from issue of loan capital		**785**	421	**(87)**	421
(Payment to)/proceeds from non-controlling interests		**(70)**	–	**956**	–
Dividends and distributions paid		**(1,467)**	(676)	**(1,453)**	(653)
Net cash flows from financing activities		**48**	695	**216**	718
Net (decrease)/increase in cash and cash equivalents		**(1,953)**	1,278	**(1,979)**	23
Cash and cash equivalents at the beginning of the financial year		**14,663**	13,385	**10,680**	10,657
Cash and cash equivalents at the end of the financial year	29	**12,710**	14,663	**8,701**	10,680

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

Notes to the financial statements
for the financial year ended 31 March 2016

Note 1
Summary of significant accounting policies

(i) Basis of preparation

The principal accounting policies adopted in the preparation of this financial report and that of the previous financial year are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth).

Compliance with IFRS as issued by the IASB

Compliance with Australian Accounting Standards ensures that the financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has also been prepared in accordance with and complies with IFRS as issued by the IASB.

Historical cost convention

This financial report has been prepared under the historical cost convention, as modified by the revaluation of investment securities available for sale and certain assets and liabilities (including derivative instruments) at fair value.

Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to Macquarie Bank Limited and its subsidiaries (Consolidated Entity) and the consolidated financial report such as:

- fair value of financial assets and liabilities (Note 38)
- impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures and assets under operating lease (Notes 1(xii), 1(xiv), 1(xvi), 8, 10, 13, 14, 16)
- distinguishing between whether assets or a business is acquired (Note 1(iii))
- determination of control of subsidiaries and structured entities (Notes 1(ii) and 35)
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(vii), 4 and 18)
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (Notes 1(xvii) and 15)
- recognition of performance fees from Macquarie-managed unlisted funds (Note 1(vi)), and
- recognition and measurement of supplemental income and maintenance liabilities (Note 1(xix), 10 and 21).

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

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

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

AASB 9 *Financial Instruments*

AASB 9 will replace AASB 139 *Financial Instruments: Recognition and Measurement*. It will lead to changes in the accounting for financial instruments, primarily relating to:

Financial assets: A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the asset gives rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of debt instruments that:

(i) have cash flows solely of principal and interest, and
(ii) are held in a business model managed both to collect cash flows and for sale

are recognised in other comprehensive income until sold, when they are recycled to the income statement. Interest and impairment are recognised directly in profit or loss. Changes in the fair value of equity investments that are not part of a trading activity may be reported directly in other comprehensive income, but upon realisation, those accumulated changes are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the assets measured at amortised cost vs. fair value compared with AASB 139.

Financial liabilities: The component of change in fair value of financial liabilities designated at fair value through profit or loss due to an entity's own credit risk are presented in other comprehensive income, unless this creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of credit risk) are presented in profit or loss. These requirements may be applied early without applying all other requirements of AASB 9.

Impairment: The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance is recognised for expected credit losses (ECL), resulting from possible defaults within the next 12 months. Subsequently, when there is a significant increase in credit risk, an allowance is required for ECL resulting from possible defaults over the expected life of the financial instrument. The assessment of credit risk, and the estimation of ECL, are to be unbiased and probability-weighted, and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date. As a result, the impairment allowance is intended to be more forward-looking and the resulting impairment charge will tend to be more volatile than under AASB 139.

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

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2018. An IFRS 9 program has been established to ensure a high quality implementation in compliance with the accounting standard and proposed regulatory guidance. The program has members from both finance and risk functions with oversight of a steering committee which includes the Chief Risk Officer (CRO) and Chief Financial Officer (CFO). The key responsibilities of the program include defining the operating model and governance framework, setting accounting policy and identifying data and system requirements.

The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 specifies how and when revenue is recognised, based on the concept of recognising revenue for performance obligations as they are satisfied. This could affect the timing and amount recognised for asset management fees, and contracts with multiple services. AASB 15 also requires enhanced disclosures.

AASB 15 is effective for annual periods beginning on or after 1 January 2018. The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2018.

The Consolidated Entity is currently assessing the impact of the new requirements on the consolidated financial statements.

AASB 16 *Leases*

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

(ii) Principles of consolidation

Subsidiaries

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

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

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

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

Structured entities

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

Where the Consolidated Entity has power over, is exposed to significant variable returns through the residual risk associated with its Mortgage SEs and other SEs, and is able to affect its returns, the underlying assets, liabilities, revenues and expenses of these SEs are reported in the consolidated financial statements.

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the Bank owns less than 100% of the issued capital, are shown separately in the consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position, respectively.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 1
Summary of significant accounting policies continued

(ii) Principles of consolidation continued

***Structured entities** continued*

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

The Bank and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Bank are carried in its financial statements at cost less impairment in accordance with AASB 127 *Separate Financial Statements*.

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

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method except those which are classified as held for sale. The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statements, and the share of its post-acquisition movements in reserves.

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence or jointly control the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

(iii) Business combinations

Business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the acquisition date) of assets acquired, equity instruments issued or liabilities incurred or assumed at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity, and those arising on borrowings are capitalised and included in interest expense using the effective interest method.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure NCI relating to ordinary shares either at fair value or at the NCI's proportionate share of the fair values of the identifiable assets and liabilities. The excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated income statements, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration given, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statements.

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

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

- the nature of the Consolidated Entity's industry and business model, which affects the nature of an input, process or output
- whether the acquisition included at least a majority of the critical inputs (for example tangible or intangible assets, and intellectual property) and a majority of the critical processes (for example strategic processes, skilled and experienced workforce)
- the relative ease of replacing the critical processes not acquired by either integrating within the Consolidated Entity's existing processes or sub-contracting them to third parties, and
- the presence of goodwill.

(iv) Segment reporting

Operating segments are identified on the basis of internal reports to senior management about components of the Consolidated Entity that are regularly reviewed by senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising seven reportable segments as disclosed in Note 3. Information about products and services and geographical segments is based on the financial information used to produce the Consolidated Entity's financial statements.

(v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Other than for certain foreign operations, foreign exchange gain and loss resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income (OCI) as a result of meeting cash flow hedge or net investment hedge accounting requirements (see Note 1(xi)).

Translation differences on non-monetary items (such as equities) held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items classified as available for sale financial assets are included in the available for sale reserve in equity, unless they form part of fair value hedge relationships in which case the translation differences are recognised in the income statement (see Note 1(xi)).

Subsidiaries and other entities

The results and financial position of all foreign operations that have a functional currency other than Australian dollars are translated into Australian dollars as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position
- income and expenses for each income statement are translated at actual exchange rates at the dates of the transactions, and
- all resulting exchange differences are recognised in OCI within a separate component of equity, being the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve through OCI. When a foreign operation is disposed of or any borrowings forming part of the net investment are repaid, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(vi) Revenue and expense recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

Net interest income

Interest income is brought to account using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs associated with loans are capitalised and included in the effective interest rate and recognised in the income statement over the expected life of the instrument. Interest income on finance leases is brought to account progressively over the life of the lease consistent with the outstanding investment balance.

Fee and commission income

Fee and commission income includes fees from fund management, brokerage, account servicing, corporate advisory, underwriting and securitisation arrangements and is recognised as the related services are performed. Where commissions and fees are subject to clawback or meeting certain performance hurdles, they are recognised as income at the point when those conditions can no longer affect the outcome.

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are capitalised and included in the effective interest rate and recognised in the income statement over the expected life of the instrument.

Performance fees from Macquarie-managed unlisted funds are recognised when the fee can be reliably measured and its receipt is highly probable. Factors that are taken into consideration include:

- the proportion of assets already realised
- returns on assets realised to-date
- downside valuation on remaining unrealised assets and reliability of those estimates
- nature of unrealised investments and their returns.

Net trading income

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

Dividends and distributions

Dividends and distributions are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends from subsidiaries, associates and joint ventures are recognised in the income statement when the Bank's right to receive the dividend is established.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 1
Summary of significant accounting policies continued

(vii) Income tax

The principles of the balance sheet method of tax effect accounting have been adopted whereby the income tax expense for the financial year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax losses.

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or when a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences will give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled under enacted or substantively enacted tax law.

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

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

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

Tax consolidation

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

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

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

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

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

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

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

(ix) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see Note 38). The realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets. At the date the transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised profit or loss arising from revaluing that contract to fair value is recognised in the income statement. When the Consolidated Entity becomes party to a sale contract of a financial asset, it derecognises the asset and recognises a trade receivable from trade date until settlement date.

(x) Derivative instruments

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

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

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

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

(xi) Hedge accounting

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

Cash flow hedges

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 1
Summary of significant accounting policies continued

(xi) Hedge accounting continued

Fair value hedges

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

Net investment hedges

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

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

(xii) Investments and other financial assets

With the exception of trading portfolio assets and derivatives, which are classified separately in the statement of financial position, the remaining investments in financial assets are classified into the following categories: loans and receivables, other financial assets at fair value through profit or loss and investment securities available for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except for other financial assets at fair value through profit or loss, is re-evaluated at each balance date.

Loans and receivables

This category includes loan assets held at amortised cost and amounts due from subsidiaries, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other financial assets at fair value through profit or loss

This category includes only those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition.

The policy of management is to designate a financial asset as such if: the asset contains embedded derivatives which must otherwise be separated and carried at fair value; it is part of a group of financial assets managed and evaluated on a fair value basis; or doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in Note 1(vi).

Investment securities available for sale

Investment securities available for sale comprise securities that are not actively traded and are intended to be held for an indefinite period. Such securities are available for sale and may be sold should the need arise, including purposes of liquidity, or due to the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gain and loss arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices.

If the relevant market is not considered active (or the securities are unlisted), fair value is established by valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Interest income on debt securities available for sale is recognised in the income statement in interest income using the effective interest method as disclosed in Note 1(vi).

(xiii) Non-current assets and disposal groups classified as held for sale

This category includes interests in businesses, subsidiaries and associates and joint ventures for which their carrying amount will be recovered principally through a sale or distribution transaction rather than continuing use, and subsidiaries held exclusively with a view to sale or distribute. These assets and disposal groups are classified as held for sale when it is highly probable that the asset will be sold or distributed within 12 months subsequent to being classified as such. Where there is a planned partial disposal of a subsidiary resulting in loss of control, all of the assets and liabilities of the subsidiary are classified as held for sale.

Non-current assets and assets of disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. These assets are not depreciated.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell, limited by the cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale is recognised at the date of sale.

(xiv) Impairment

Loan assets held at amortised cost

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

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

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

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

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

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

Investment securities available for sale

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that available for sale financial assets have been impaired. Impairment exists if there is objective evidence of impairment as a result of one or more events (loss event) which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost. In making this judgement, the Consolidated Entity evaluates among other factors, the normal volatility in share price and the period of time for which fair value has been below cost.

In the case of debt securities classified as available for sale, observable data that relates to loss events are considered, including adverse changes in the payment status of the issuer and national or local economic conditions that correlate with defaults on those assets.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

When the fair value of an available for sale financial asset is less than its initial carrying amount and there is objective evidence that the asset is impaired, the cumulative loss recognised directly in OCI is removed from equity and recognised in the income statement.

Impairment loss recognised in the income statement for equity securities classified as available for sale are not subsequently reversed through the income statement. However impairment loss recognised for debt investment securities classified as available for sale are subsequently reversed through the income statement if the fair value increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 1
Summary of significant accounting policies continued

(xiv) Impairment continued

Interests in associates and joint ventures

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

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

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

Investments in subsidiaries

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

(xv) Life insurance business

The life insurance business is comprised of insurance contracts and investment contracts as defined in AASB 4 *Insurance Contracts*. The following are key accounting policies in relation to the life insurance business:

Disclosure

The consolidated financial statements include the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Bank in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, and AASB 1038 *Life Insurance Contracts* which apply to investment contracts and assets backing insurance liabilities, respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment assets

Investment assets are carried at fair value through profit or loss. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (and for unlisted securities), fair value is established by valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Changes in fair values are recognised in the income statement in the period in which the changes occur.

Restriction on assets

Investments held in the Life Funds can only be used within the restrictions imposed under the *Life Insurance Act 1995*. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, acquire investments to further the business of the fund or pay distributions when solvency and capital adequacy requirements allow. Shareholders can only receive a distribution when the capital adequacy requirements of the *Life Insurance Act 1995* have been met.

Policy liabilities

Life insurance liabilities are measured as the accumulated benefits to policyholders in accordance with AASB 139 and AASB 1038, which apply to investment contracts and assets backing insurance liabilities, respectively.

(xvi) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss, if any. Property, plant and equipment are reviewed for impairment at each reporting date. Historical cost includes expenditure directly attributable to the acquisition of the asset. Property, plant and equipment includes assets leased out under operating leases.

Depreciation on aviation assets is calculated on a diminishing balance method and depreciation on all other assets is calculated on a straight-line basis to allocate the difference between cost and residual values over their estimated useful lives, at the following rates:

Buildings	2.5 to 3.3%
Furniture, fittings and leasehold improvements[(1)]	10 to 20%
Equipment	33 to 50%
Infrastructure assets	5 to 20%
Aviation	5.5 to 8%
Meters	5 to 10%
Rail cars	2 to 3%
Other operating lease assets	2 to 50%

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

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

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

(xvii) Goodwill and other identifiable intangible assets

Goodwill

Goodwill represents the excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill arising from business combinations is included in intangible assets on the face of the statement of financial position. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates.

Other identifiable intangible assets

An intangible asset is considered to have an indefinite useful life where it is expected to contribute to the Consolidated Entity's net cash inflows indefinitely.

Licences and trading rights are generally carried at cost less accumulated impairment loss. These assets are not amortised because they are considered to have an indefinite useful life.

Management rights have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated using the straight-line method to allocate the cost of management rights over the estimated useful life, usually a period not exceeding 20 years.

Customer and servicing contracts acquired with a finite useful life are carried at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated over the period over which the customer relationship is expected to exist.

Customer and servicing contracts with an indefinite useful life are carried at cost less accumulated impairment loss.

Software

Certain internal and external costs directly incurred in acquiring and developing certain software are capitalised and amortised over the estimated useful life, usually a period of three to seven years. Cost incurred on software maintenance is expensed as incurred.

Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. For intangible assets that have a finite useful life, an assessment is made at each reporting date for indications of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the operating segments (see Note 3 – Segment reporting) and assessed for impairment on a regional legal entity operating group basis.

(xviii) Financial liabilities

The Consolidated Entity has on issue debt securities and instruments which are initially recognised at fair value net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowing using the effective interest method.

Other financial liabilities at fair value through profit or loss

This category includes only those financial liabilities which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial liability as such if: the liability contains embedded derivatives which must otherwise be separated and carried at fair value; the liability is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis; or doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Interest expense on such items is recognised in the income statement in interest expense using the effective interest method.

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

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 1
Summary of significant accounting policies continued

(xx) Provisions

Employee benefits

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

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

In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Commonwealth Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows.

Provisions for unpaid employee benefits are derecognised when the benefit is settled, or is transferred to another entity and the Bank and Consolidated Entity are legally released from the obligation and do not retain a constructive obligation.

Dividends

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

(xxi) Performance based remuneration

Share-based payments

The ultimate parent company, MGL operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 32. The Consolidated Entity recognises an expense (and equity reserve) for its awards granted to employees. The awards are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense over the respective vesting periods.

Performance hurdles attached to Performance Share Units (PSUs) under the MEREP are not taken into account when determining the fair value of the PSUs at grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest.

Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash.

(xxii) Cash and cash equivalents

Cash and cash equivalents comprise of:

– cash and short-term amounts included in receivables from financial institutions and loan assets at amortised cost, and
– certain trading portfolio assets and debt securities with original contractual maturity of three months or less.

(xxiii) Leases

Leases where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are operating leases.

Where finance leases are granted to third parties, the present value of the lease receipts is recognised as a receivable and included in loan assets held at amortised cost. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.

Leases entered into by the Consolidated Entity as lessee are primarily operating leases. The total fixed payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Purchased assets, where the Consolidated Entity is the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 2 to 50 years. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment.

(xxiv) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the amounts and either there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously.

(xxv) Loan capital

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

(xxvi) Contributed equity

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

(xxvii) Changes in ownership interests

When acquiring additional interests of a financial asset (such that it becomes an associate, joint venture or subsidiary) or an investment in an associate or joint venture (such that it becomes a subsidiary), previously held interests are revalued to their current fair value and any gain or loss is immediately recognised in profit or loss.

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in associate or joint venture (such that it becomes a financial asset), retained ownership interests are revalued to their current fair value and any gain or loss is immediately recognised in the income statement.

When increasing or decreasing the ownership interests of a subsidiary that remains a subsidiary afterwards, the consideration exchanged is recognised directly in equity.

(xxviii) Discontinued operations

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

(xxix) Comparatives

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

(xxx) Rounding of amounts

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Note 2				
Profit for the financial year				
Net interest income				
Interest and similar income received/receivable	**5,083**	4,641	**4,122**	3,555
Interest expense and similar charges paid/payable	**(2,911)**	(2,630)	**(2,685)**	(2,329)
Net interest income	**2,172**	2,011	**1,437**	1,226
Fee and commission income				
Base fees	**46**	39	**8**	7
Performance fees	**20**	–	**–**	–
Mergers and acquisitions, advisory and underwriting fees	**32**	43	**22**	16
Brokerage and commissions[1]	**436**	408	**309**	268
Other fee and commission income	**396**	404	**238**	23
Total fee and commission income	**930**	894	**577**	314
Net trading income[2]				
Equities	**600**	393	**343**	282
Commodities[3]	**1,266**	1,028	**560**	432
Credit, interest rate and foreign exchange products	**258**	439	**468**	1,298
Net trading income	**2,124**	1,860	**1,371**	2,012
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**22**	(17)	**–**	–

(1) Includes life investment of $230 million (2015: $226 million) and related expenses of $162 million (2015: $139 million).
(2) Included in net trading income are fair value losses of $138 million (2015: $23 million losses) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This amount includes $49 million gain in relation to changes in the fair value of liabilities designated as held at fair value through profit or loss due to changes in the Consolidated Entity's credit risk. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value except for changes in the Consolidated Entity's credit risk. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met, refer to Note 1(xi) – Summary of significant accounting policies.
(3) Includes transportation and storage costs of $300 million (2015: $247 million).

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 2

Profit for the financial year continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Other operating income and charges				
Net gains on sale of investment securities available for sale	**28**	33	**7**	31
Impairment charge on investment securities available for sale	**(33)**	(54)	**(22)**	(27)
Net gains on sale of associates and joint ventures	**20**	38	**15**	13
Impairment (charge)/reversal on interest in associates and joint ventures	**(4)**	(20)	**38**	(4)
Gain on disposal of operating lease assets	**8**	231	**–**	2
(Loss)/gain on acquiring, disposing, classification and change in ownership interest in subsidiaries, associates	**(24)**	144	**(28)**	18
Impairment charge on subsidiaries	**–**	–	**(48)**	(75)
Impairment charge on intangibles and other non-financial assets	**(60)**	(72)	**(13)**	(11)
Net operating lease income:				
Rental income	**1,575**	1,067	**40**	20
Depreciation on operating lease assets (Note 13)	**(680)**	(440)	**(26)**	(7)
Dividends/distributions received/receivable from:				
Investment securities available for sale	**38**	27	**41**	6
Subsidiaries and associates	**–**	–	**2,920**	905
Management fees, group service charges and cost recoveries	**–**	–	**357**	381
Collective (allowance)/reversal for credit losses provided for during the financial year:				
Loan assets (Note 10)	**(6)**	(71)	**28**	(47)
Debt investment securities available for sale	**–**	(13)	**(1)**	(13)
Individually assessed provisions and write-offs:				
Loan assets provided for during the financial year (Note 10)	**(418)**	(278)	**(403)**	(296)
Other receivables provided for during the financial year	**(6)**	(18)	**(4)**	(13)
Recovery of loans previously provided for (Note 10)	**19**	27	**19**	23
Loans written off	**(109)**	(78)	**(57)**	(31)
Recovery of loans previously written off	**23**	24	**3**	11
Other income/(charges)	**24**	–	**(52)**	(7)
Total other operating income and charges	**395**	547	**2,814**	879
Net operating income	**5,643**	5,295	**6,199**	4,431

Notes to the financial statements
for the financial year ended 31 March 2016
continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 2

Profit for the financial year continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,297)**	(1,313)	**(959)**	(928)
Share-based payments	**(132)**	(148)	**(82)**	(101)
Reversal of/(provision for) long service leave and annual leave	**1**	(5)	**2**	(3)
Total employment expenses	**(1,428)**	(1,466)	**(1,039)**	(1,032)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	**(531)**	(495)	**(348)**	(364)
Other fee and commission expenses	**(109)**	(106)	**(92)**	(86)
Total brokerage, commission and trading-related expenses	**(640)**	(601)	**(440)**	(450)
Occupancy expenses				
Operating lease rentals	**(7)**	(10)	**(1)**	(1)
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 13)	**(3)**	(15)	**–**	(10)
Other occupancy expenses	**(102)**	(95)	**(83)**	(82)
Total occupancy expenses	**(112)**	(120)	**(84)**	(93)
Non-salary technology expenses				
Information services	**(74)**	(64)	**(56)**	(49)
Depreciation: equipment (Note 13)	**(3)**	(1)	**(1)**	–
Service provider and other non-salary technology expenses	**(74)**	(45)	**(63)**	(37)
Total non-salary technology expenses	**(151)**	(110)	**(120)**	(86)
Other operating expenses				
Professional fees	**(201)**	(163)	**(136)**	(101)
Auditor's remuneration (Note 41)	**(22)**	(16)	**(9)**	(9)
Travel and entertainment expenses	**(57)**	(55)	**(39)**	(37)
Advertising and promotional expenses	**(19)**	(22)	**(17)**	(19)
Communication expenses	**(15)**	(13)	**(10)**	(8)
Amortisation of intangibles (Note 15)	**(34)**	(39)	**(36)**	(37)
Depreciation: infrastructure assets (Note 13)	**(11)**	–	**–**	–
Other expenses[1]	**(1,217)**	(1,172)	**(974)**	(919)
Total other operating expenses	**(1,576)**	(1,480)	**(1,221)**	(1,130)
Total operating expenses	**(3,907)**	(3,777)	**(2,904)**	(2,791)

[1] Other expenses include recharges from Macquarie Group Services Australia Pty Limited (MGSA) which provides administration and Central Service Groups.

Note 3

Segment reporting

(i) Operating 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 is included in Note 43 – Discontinued Operations and Held for Sale Disposal Group.

For internal reporting, performance measurement and risk management purposes, Macquarie Bank 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 of Macquarie Bank comprise:

Macquarie Asset Management (MAM) specialises in manufacturing and distributing a range of tailored fund and equity-based products to institutions, private banks and retail investors.

Corporate and Asset Finance (CAF) delivers tailored finance and asset management solutions to clients through the cycles, specialising in corporate and real estate lending and with an expertise in asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail, rotorcraft and mining equipment.

Banking and Financial Services (BFS) provides a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisers, brokers and business clients.

Macquarie Securities Group (MSG) is a global institutional securities house with strong Asia-Pacific foundations covering cash equity and derivatives trading activities.

Commodities and Financial Markets (CFM) provides clients with risk and capital solutions across physical and financial markets.

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

Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie 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. BFS receives a deposit premium from Group Treasury on deposits they generate. This deposit premium is included within net interest and trading income for segment reporting purposes.

Transactions between operating groups

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

Central Service Groups

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 3
Segment reporting continued

Performance-related profit share and share based payments expense

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

Income tax

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

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Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 3
Segment reporting continued
(i) Operating segments continued

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

	Macquarie Asset Management $m	Corporate and Asset Finance $m	Banking and Financial Services $m
Net interest and trading income	**113**	**834**	**941**
Fee and commission income/(expense)	**54**	**44**	**524**
Share of net profit of associates and joint ventures accounted for using the equity method	**–**	**7**	**1**
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	**2**	**(168)**	**(43)**
Other other operating income and charges	**20**	**932**	**35**
Internal management revenue/(charge)	**2**	**60**	**4**
Net operating income	**191**	**1,709**	**1,462**
Total operating expenses	**(116)**	**(589)**	**(1,114)**
Profit/(loss) before tax	**75**	**1,120**	**348**
Tax expense	**–**	**–**	**–**
Profit after income tax	**75**	**1,120**	**348**
Profit attributable to non-controlling interests	**–**	**1**	**–**
Profit attributable to equity holders	**75**	**1,121**	**348**
Distributions paid or provided for on MIS	**–**	**–**	**–**
Net profit attributable to ordinary equity holders from continuing operations	**75**	**1,121**	**348**
Reportable segment assets	**2,848**	**40,854**	**39,520**

	Macquarie Asset Management $m	Corporate and Asset Finance $m	Banking and Financial Services $m
Net interest and trading income	112	725	825
Fee and commission income/(expense)	84	34	528
Share of net (loss)/profit of associates and joint ventures accounted for using the equity method	(1)	4	3
Other operating income and charges:			
Impairment charges, write-offs and provisions, net of recoveries	(4)	(152)	(36)
Other other operating income	28	978	17
Internal management (charge)/revenue	(1)	(4)	3
Net operating income	218	1,585	1,340
Total operating expenses	(121)	(477)	(1,060)
Profit/(loss) before tax	97	1,108	280
Tax expense	–	–	–
Profit after income tax	97	1,108	280
Loss attributable to non-controlling interests	–	–	–
Profit attributable to equity holders	97	1,108	280
Distributions paid or provided for on MIS	–	–	–
Net profit attributable to ordinary equity holders from continuing operations	97	1,108	280
Reportable segment assets	4,250	29,911	37,289

Macquarie Securities Group $m	Commodities and Financial Markets $m	Corporate $m	Total $m
			Consolidated 2016
519	**1,673**	**216**	**4,296**
129	**200**	**(21)**	**930**
–	**5**	**9**	**22**
(1)	**(328)**	**(56)**	**(594)**
–	**45**	**(43)**	**989**
(4)	**2**	**(64)**	**–**
643	**1,597**	**41**	**5,643**
(443)	**(1,065)**	**(580)**	**(3,907)**
200	**532**	**(539)**	**1,736**
–	**–**	**(681)**	**(681)**
200	**532**	**(1,220)**	**1,055**
–	**–**	**10**	**11**
200	**532**	**(1,210)**	**1,066**
–	**–**	**(16)**	**(16)**
200	**532**	**(1,226)**	**1,050**
18,203	**69,155**	**11,029**	**181,609**
			Consolidated 2015
316	1,635	258	3,871
59	348	(159)	894
–	(1)	(22)	(17)
(3)	(334)	(24)	(553)
–	72	5	1,100
(4)	(10)	16	–
368	1,710	74	5,295
(367)	(942)	(810)	(3,777)
1	768	(736)	1,518
–	–	(589)	(589)
1	768	(1,325)	929
–	–	(5)	(5)
1	768	(1,330)	924
–	–	(18)	(18)
1	768	(1,348)	906
25,041	68,691	7,398	172,580

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 3
Segment reporting continued
(ii) Products and services

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

Asset and Wealth Management: distribution and manufacture of funds management products

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

Capital Markets: corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/property development, and

Lending: banking activities, mortgages and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2016
Revenues from external customers	**761**	**3,738**	**174**	**5,575**	**10,248**
					Consolidated 2015
Revenues from external customers	769	3,026	101	5,489	9,385

(iii) Geographical areas

Geographical segments have been determined based upon where the transactions have been booked. The operations of the Consolidated Entity are headquartered in Australia.

	Revenues from external customers $m	Non-current assets[1] $m
		Consolidated 2016
Australia	**4,979**	**783**
Europe, Middle East and Africa[2]	**2,588**	**10,138**
Americas[3]	**1,855**	**1,143**
Asia Pacific	**826**	**175**
Total	**10,248**	**12,239**
		Consolidated 2015
Australia	4,329	827
Europe, Middle East and Africa[2]	2,183	5,905
Americas[3]	2,301	730
Asia Pacific	572	232
Total	9,385	7,694

(1) Non-current assets consist of intangible assets, interests in associates and joint ventures accounted for using the equity method, property, plant and equipment and investment property.
(2) Included within this balance is external revenue generated in the UK of $1,796 million (2015: $1,552 million).
(3) Included within this balance is external revenue generated in the USA of $1,818 million (2015: $2,062 million).

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

Note 4

Income tax expense

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
(i) Income tax expense				
Current tax expense	**(681)**	(917)	**(334)**	(328)
Deferred tax (expense)/benefit	**(10)**	231	**66**	143
Total income tax expense	**(691)**	(686)	**(268)**	(185)
Income tax (expense)/benefit is attributable to:				
Profit from continuing operations	**(681)**	(589)	**(276)**	(213)
Profit/(loss) from discontinued operations	**(10)**	(97)	**8**	28
Total income tax expense	**(691)**	(686)	**(268)**	(185)
(ii) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable				
Prima facie income tax expense on operating profit(1)	**(836)**	(541)	**(1,178)**	(474)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	**(161)**	(123)	**(182)**	(124)
Intra-group dividends	**–**	–	**876**	271
Gain on sale of discontinued operations	**303**	–	**196**	–
Impairment reversal/(charge) on subsidiaries	**–**	–	**2**	(15)
Other items	**3**	(22)	**18**	157
Total income tax expense	**(691)**	(686)	**(268)**	(185)
(iii) Tax (expense)/benefit relating to items of other comprehensive income				
Available for sale reserve	**(20)**	(2)	**(1)**	(6)
Cash flow hedges	**(14)**	27	**(16)**	4
Foreign currency translation reserve	**3**	6	**–**	–
Share of other comprehensive income of associates and joint ventures	**–**	1	**–**	–
Total tax (expense)/benefit relating to items of other comprehensive income	**(31)**	32	**(17)**	(2)
(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities				
Investments	**121**	(85)	**40**	(10)
Fixed assets	**57**	(46)	**50**	(55)
Intangible assets	**(1)**	(6)	**3**	–
Tax losses	**(33)**	55	**(27)**	10
Leasing and financial instruments	**(45)**	15	**65**	(2)
Other assets and liabilities	**(109)**	298	**(65)**	200
Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities	**(10)**	231	**66**	143

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

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

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

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for the financial year ended 31 March 2016
continued

Note 5
Dividends and distributions paid or provided for
(i) Dividends paid

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Ordinary share capital				
2016 Special dividend paid[(1),(2),(3)]	**1,140**	–	**3,130**	–
Final dividend paid	**440**	159	**440**	159
2015 Interim dividend paid	**–**	494	**–**	494
Total dividends paid (Note 28)	**1,580**	653	**3,570**	653

(1) This is the distribution of the Macquarie Infrastructure Management business within the MAM segment through a special dividend. Refer to Note 43 – Discontinued operations for further information.
(2) Includes cash distribution of $1,009 million for the Consolidated Entity and the Bank.
(3) Includes in-specie distribution of $131 million for the Consolidated Entity and $2,121 million for the Bank.

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

Since the end of the financial year, the Directors have recommended the payment of a dividend. The aggregate amount of the proposed dividend expected to be paid on 11 May 2016 from retained profits at 31 March 2016, but not recognised as a liability at the end of the financial year, is $644 million (2015: $440 million).

(iii) Distributions paid or provided for

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Macquarie Income Securities				
Distributions paid (net of distributions previously provided for)	**13**	14	**–**	–
Distributions provided for	**3**	4	**–**	–
Total distributions paid or provided for (Note 28)	**16**	18	**–**	–
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided for)	**1**	3	**–**	–
Distributions provided for	**–**	2	**–**	–
Total distributions paid or provided for	**1**	5	**–**	–

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Convertible Debentures				
Distributions paid (net of distributions previously provided for)	**–**	–	**1**	3
Distributions provided for	**–**	–	**–**	2
Total distributions paid or provided for (Note 28)	**–**	–	**1**	5

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 6

Receivables from financial institutions

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Cash and other receivables[1]	**7,606**	8,686	**5,188**	6,917
Cash collateral on securities borrowed and reverse repurchase agreements[2]	**23,350**	17,295	**23,107**	17,217
Total receivables from financial institutions	**30,956**	25,981	**28,295**	24,134

(1) Included within this balance is $132 million (2015: $60 million) provided as security over payables to other financial institutions.

(2) The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral held as at 31 March 2016 is $25,074 million (2015: $19,299 million).

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

Note 7

Trading portfolio assets

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Equities				
Listed	**9,733**	14,805	**6,916**	10,814
Unlisted	**44**	63	**36**	53
Commonwealth government securities	**4,857**	4,199	**4,850**	4,199
Commodities	**4,462**	6,035	**3,490**	4,984
Foreign government securities	**1,874**	1,377	**1,614**	1,142
Corporate loans and securities	**1,833**	2,335	**997**	1,248
Treasury notes	**247**	1,133	**247**	443
Other	**12**	92	**6**	34
Total trading portfolio assets[1],[2]	**23,062**	30,039	**18,156**	22,917

(1) Included within these balances are assets pledged as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is $nil (2015: $875 million).

(2) Included within this balance are trading assets of $5,914 million (2015: $5,713 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 8
Investment securities available for sale

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Debt securities[1],[2]	**8,582**	6,015	**8,252**	5,250
Equity securities				
Listed	**90**	85	**83**	80
Unlisted	**336**	245	**159**	76
Total investment securities available for sale[3]	**9,008**	6,345	**8,494**	5,406

(1) Included within this balance is $3,842 million (2015: $1,206 million) of Negotiable Certificates of Deposit (NCD) issued by financial institutions.
(2) Included within this balance is $479 million (2015: $941 million) provided as security over payables to financial institutions.
(3) Included within this balance is $408 million (2015: $411 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, $4,327 million (2015: $1,565 million) is expected to be recovered by the Consolidated Entity and $4,335 million (2015: $1,562 million) is expected to be recovered by the Bank within 12 months of the balance date.

Note 9
Other assets

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Debtors and prepayments	**2,995**	3,730	**2,136**	2,439
Security settlements	**2,186**	2,483	**2,059**	2,333
Life investment contracts and other unitholder assets	**850**	1,061	**–**	–
Income tax receivable	**300**	186	**124**	8
Investment property	**284**	249	**–**	–
Interests in associates held for sale	**241**	–	**–**	–
Other	**62**	109	**19**	8
Total other assets[1]	**6,918**	7,818	**4,338**	4,788

(1) Included within this balance is $386 million (2015: $126 million) of assets which are provided as security over amounts payable to financial institutions.

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

Note 10

Loan assets held at amortised cost

	2016 Gross $m	2016 Individually assessed provision for impairment $m	2016 Net $m	2015 Gross $m	2015 Individually assessed provision for impairment $m	2015 Net $m
						Consolidated
Residential mortgage loans	**31,378**	**(14)**	**31,364**	29,432	(14)	29,418
Lease and retail financing	**19,326**	**(53)**	**19,273**	11,418	(56)	11,362
Corporate and commercial lending	**17,280**	**(230)**	**17,050**	18,700	(456)	18,244
Margin money placed	**8,417**	**–**	**8,417**	8,830	–	8,830
Relationship banking mortgages	**2,241**	**–**	**2,241**	2,064	–	2,064
Investment and insurance premium lending	**1,008**	**(2)**	**1,006**	1,656	(5)	1,651
Total loan assets before collective allowance for credit losses	**79,650**	**(299)**	**79,351**	72,100	(531)	71,569
Less collective allowance for credit losses			**(438)**			(363)
Total loan assets held at amortised cost[(1),(2),(3)]			**78,913**			71,206

(1) Included within this balance are loans of $18,087 million (2015: $17,207 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.
(2) Included within this balance are other loans of $2,583 million (2015: $2,235 million) pledged as security over issued notes and payables to other external investors and financial institutions.
(3) Loans of $811 million (2015: $938 million) are pledged under repurchase agreements.

	2016 Gross $m	2016 Individually assessed provision for impairment $m	2016 Net $m	2015 Gross $m	2015 Individually assessed provision for impairment $m	2015 Net $m
						Bank
Residential mortgage loans	**28,169**	**(3)**	**28,166**	22,549	(1)	22,548
Corporate and commercial lending	**13,050**	**(216)**	**12,834**	15,926	(433)	15,493
Lease and retail financing	**8,279**	**(29)**	**8,250**	1,159	(43)	1,116
Margin money placed	**5,340**	**–**	**5,340**	6,257	–	6,257
Relationship banking mortgages	**2,241**	**–**	**2,241**	2,064	–	2,064
Investment and insurance premium lending	**513**	**(81)**	**432**	592	(84)	508
Total loan assets before collective allowance for credit losses	**57,592**	**(329)**	**57,263**	48,547	(561)	47,986
Less collective allowance for credit losses			**(310)**			(275)
Total loan assets held at amortised cost			**56,953**			47,711

Of the above amounts, $25,001 million (2015: $22,553 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $17,899 million (2015: $15,653 million) by the Bank.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 10
Loan assets held at amortised cost continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Individually assessed provisions for impairment				
Balance at the beginning of the financial year	**531**	300	**561**	289
Provided for during the financial year (Note 2)	**418**	278	**403**	296
Loan assets written off, previously provided for	**(610)**	(59)	**(595)**	(43)
Recovery of loans previously provided for (Note 2)	**(19)**	(27)	**(19)**	(23)
Net transfer to other provisions	**–**	(2)	**–**	(3)
Foreign exchange movements	**(21)**	41	**(21)**	45
Balance at the end of the financial year	**299**	531	**329**	561
Individually assessed provisions as a percentage of total gross loan assets	**0.37%**	0.74%	**0.57%**	1.16%
Collective allowance for credit losses				
Balance at the beginning of the financial year	**363**	264	**275**	201
Provided for/(reversal of) during the financial year (Note 2)	**6**	71	**(28)**	47
Acquisitions during the financial year	**66**	14	**59**	14
Net transfer from other provisions	**5**	–	**5**	2
Foreign exchange movements	**(2)**	14	**(1)**	11
Balance at the end of the financial year	**438**	363	**310**	275

The collective allowance for credit losses is intended to cover losses in the existing overall credit portfolio which are not yet individually identified.

Finance lease receivables are included within loan assets held at amortised cost. The Consolidated Entity provides finance leases to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles, small plant and equipment, electronic and IT equipment. Finance lease receivables does not include retail products such as hire purchase, chattel mortgages and consumer loans.

	2016			2015		
	Gross investment in finance lease receivables $m	**Unearned income $m**	**Present value of minimum lease payments receivable $m**	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m
						Consolidated
No later than one year	**2,035**	**(196)**	**1,839**	1,963	(206)	1,757
Later than one year and no later than five years	**4,187**	**(431)**	**3,756**	3,742	(405)	3,337
Later than five years	**156**	**(34)**	**122**	241	(73)	168
Total finance lease receivables	**6,378**	**(661)**	**5,717**	5,946	(684)	5,262

Note 11

Impaired financial assets

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Debt investment securities available for sale before cumulative impairment loss	**–**	3	**–**	–
Cumulative impairment loss	**–**	(3)	**–**	–
Debt investment securities available for sale	**–**	–	**–**	–
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**719**	1,190	**818**	1,353
Less individually assessed provisions for impairment	**(320)**	(577)	**(332)**	(591)
Loan assets and other financial assets after individually assessed provisions for impairment	**399**	613	**486**	762
Total net impaired financial assets	**399**	613	**486**	762

Note 12

Other financial assets at fair value through profit or loss

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Investment securities				
Equity securities	**816**	828	**785**	783
Debt securities	**72**	203	**72**	203
Loan assets	**169**	292	**148**	289
Total other financial assets at fair value through profit or loss[1]	**1,057**	1,323	**1,005**	1,275

(1) Included within this balance is $398 million (2015: $413 million) provided as security over payables to financial institutions.

Of the above amounts, $842 million (2015: $326 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $812 million (2015: $325 million) by the Bank.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Note 13				
Property, plant and equipment				
Assets for own use				
Land and buildings				
Cost	**9**	99	**–**	72
Less accumulated depreciation	**–**	(11)	**–**	–
Total land and building	**9**	88	**–**	72
Furniture, fittings and leasehold improvements				
Cost	**33**	96	**11**	11
Less accumulated depreciation	**(26)**	(43)	**(10)**	(10)
Total furniture, fittings and leasehold improvements	**7**	53	**1**	1
Equipment				
Cost	**18**	16	**5**	4
Less accumulated depreciation	**(13)**	(13)	**(2)**	(3)
Total equipment	**5**	3	**3**	1
Infrastructure assets				
Cost	**430**	1	**–**	–
Less accumulated depreciation	**(11)**	(1)	**–**	–
Total infrastructure assets	**419**	–	**–**	–
Total assets for own use	**440**	144	**4**	74
Assets under operating lease				
Aviation				
Cost	**10,476**	5,473	**–**	–
Less accumulated depreciation	**(1,597)**	(947)	**–**	–
Total aviation	**8,879**	4,526	**–**	–
Meters				
Cost	**1,081**	1,200	**–**	–
Less accumulated depreciation	**(391)**	(423)	**–**	–
Total meters	**690**	777	**–**	–
Rail cars				
Cost	**840**	808	**–**	–
Less accumulated depreciation	**(114)**	(64)	**–**	–
Total rail cars	**726**	744	**–**	–
Others				
Cost	**741**	686	**423**	345
Less accumulated depreciation	**(172)**	(134)	**(53)**	(29)
Total others	**569**	552	**370**	316
Total assets under operating lease	**10,864**	6,599	**370**	316
Total property, plant and equipment	**11,304**	6,743	**374**	390

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

Note 13

Property, plant and equipment continued

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

Assets for own use	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Balance at 1 April 2014	278	40	2	1	321
Acquisitions	–	31	3	–	34
Disposals	–	–	–	(2)	(2)
Reclassification	(188)	(8)	(1)	–	(197)
Impairments	–	–	–	1	1
Foreign exchange movements	2	1	–	–	3
Depreciation expense (Note 2)	(4)	(11)	(1)	–	(16)
Balance at 31 March 2015	**88**	**53**	**3**	**–**	**144**
Acquisitions	**–**	**4**	**5**	**413**	**422**
Disposals	**(10)**	**(19)**	**–**	**–**	**(29)**
Reclassification	**(68)**	**(29)**	**–**	**35**	**(62)**
Impairments	**–**	**–**	**–**	**–**	**–**
Foreign exchange movements	**–**	**–**	**–**	**(18)**	**(18)**
Depreciation expense (Note 2)	**(1)**	**(2)**	**(3)**	**(11)**	**(17)**
Balance at 31 March 2016	**9**	**7**	**5**	**419**	**440**

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 13
Property, plant and equipment continued

Assets under operating lease	Aviation $m	Meters $m	Rail cars $m	Other $m	Total $m
Balance at 1 April 2014	3,444	784	1,187	309	5,724
Acquisitions	633	104	3	223	963
Disposals	(48)	(45)	(476)	(120)	(689)
Reclassification	(46)	(22)	–	187	119
Impairments	(24)	–	–	–	(24)
Foreign exchange movements	772	63	71	40	946
Depreciation expense from continuing operations (Note 2)	(205)	(107)	(41)	(87)	(440)
Balance at 31 March 2015	**4,526**	**777**	**744**	**552**	**6,599**
Acquisitions	**5,122**	**144**	**12**	**79**	**5,357**
Disposals	**(25)**	**(57)**	**–**	**(6)**	**(88)**
Reclassification	**–**	**(36)**	**(1)**	**42**	**5**
Impairments	**(39)**	**–**	**–**	**(3)**	**(42)**
Foreign exchange movements	**(264)**	**(24)**	**1**	**–**	**(287)**
Depreciation expense from continuing operations (Note 2)	**(441)**	**(114)**	**(30)**	**(95)**	**(680)**
Balance at 31 March 2016	**8,879**	**690**	**726**	**569**	**10,864**

Included in the balance of operating leases are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $3,134 million (2015: $323 million).

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

Assets under operating lease	**Consolidated 2016 $m**	Consolidated 2015 $m	**Bank 2016 $m**	Bank 2015 $m
Not later than one year	**1,153**	749	**8**	26
Later than one year and no later than five years	**2,927**	1,463	**11**	103
Later than five years	**962**	354	**–**	147
Total future minimum lease payments receivable	**5,042**	2,566	**19**	276

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 14

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Loans and investments without provisions for impairment	**355**	366	**54**	63
Loans and investments with provisions for impairment	**156**	193	**60**	62
Less provisions for impairment	**(85)**	(88)	**(42)**	(57)
Loans and investments at recoverable amount	**71**	105	**18**	5
Total interests in associates and joint ventures accounted for using the equity method[1],[2]	**426**	471	**72**	68

(1) Included within this balance is $403 million (2015: $458 million) relating to interests in associates and $23 million (2015: $13 million) relating to interests in joint ventures in the Consolidated Entity. Included within this balance is $64 million (2015: $67 million) relating to interests in associates and $8 million (2015: $1 million) relating to interests in joint ventures in the Bank.

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

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

Note 15

Intangible assets

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Goodwill				
At cost	**80**	79	**–**	–
Less accumulated impairment loss	**(12)**	(7)	**–**	–
Carrying amount	**68**	72	**–**	–
Intangible assets with indefinite lives				
At cost	**–**	29	**–**	–
Less accumulated impairment loss	**–**	(7)	**–**	–
Carrying amount	**–**	22	**–**	–
Customer and servicing contracts				
At cost	**–**	17	**–**	–
Less accumulated amortisation and impairment loss	**–**	(15)	**–**	–
Carrying amount	**–**	2	**–**	–
Other identifiable intangible assets				
At cost	**304**	251	**280**	227
Less accumulated amortisation and impairment loss	**(148)**	(118)	**(138)**	(104)
Carrying amount	**156**	133	**142**	123
Total intangible assets	**224**	229	**142**	123

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 15

Intangible assets continued

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

	Goodwill $m	Intangible assets with indefinite lives $m	Customer and servicing contracts $m	Other identifiable intangible assets $m	Total $m
Balance at 1 April 2014	318	242	90	135	785
Acquisitions	–	–	–	101	101
Reclassifications	9	–	(9)	–	–
Transfer to assets of disposals group classified as held for sale	(204)	(271)	(59)	(17)	(551)
Disposals	(68)	–	(9)	(38)	(115)
Impairment	(40)	–	(10)	(10)	(60)
Amortisation expense from continuing operations (Note 2)	–	–	(3)	(36)	(39)
Amortisation expense from discontinued operations	–	–	(14)	(3)	(17)
Foreign exchange movements	57	51	16	1	125
Balance at 31 March 2015	**72**	**22**	**2**	**133**	**229**
Acquisitions	**–**	**–**	**–**	**69**	**69**
Disposals	**–**	**(22)**	**–**	**–**	**(22)**
Impairment	**(3)**	**–**	**–**	**(14)**	**(17)**
Amortisation expense (Note 2)	**–**	**–**	**(2)**	**(32)**	**(34)**
Foreign exchange movements	**(1)**	**–**	**–**	**–**	**(1)**
Balance at 31 March 2016	**68**	**–**	**–**	**156**	**224**

Goodwill and Intangible assets with indefinite lives:

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

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

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 16

Investments in subsidiaries

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Investments at cost without provisions for impairment	**–**	–	**7,038**	3,086
Investments at cost with provisions for impairment	**–**	–	**1,161**	1,168
Less provisions for impairment	**–**	–	**(570)**	(583)
Investments at recoverable amount	**–**	–	**591**	585
Total investments in subsidiaries	**–**	–	**7,629**	3,671

The above amounts are expected to be recovered after 12 months of the balance date by the Bank.

The material subsidiaries of the Bank, based on contribution to the Consolidated Entity's profit after income tax, the size of the investment made by the Bank or the nature of activities conducted by the subsidiary, are:

- Macquarie Financial Limited/Financiere Macquarie Ltee. (Canada)
- Macquarie Energy LLC (United States)
- Macquarie Aircraft Leasing Limited (Ireland)
- Macquarie America Holdings Inc (United States)
- Macquarie FICC Holdings USA Inc (United States)
- Macquarie Services (USA) LLC (United States)
- Macquarie Alternative Assets Management Limited (Australia)
- Macquarie Energy North America Trading Inc. (United States)
- Macquarie Americas Holdings Pty Limited (Australia)[1]
- Macquarie Funding Holdings LLC (United States)
- Macquarie Trading Services Inc (United States)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Aerospace Limited (Ireland)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Corporate And Asset Finance Limited (Australia)
- Macquarie Investment Management Limited (Australia)
- Macquarie Leasing NSW Pty Limited (Australia)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Funds Management Holdings Pty Limited (Australia)

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

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all material entities is 100%.

All material entities have a 31 March reporting date.

In accordance with ASIC instruments 12-0250, 12-1311,13-0151, 13-0394 and 13-0500, Macquarie Group has been granted relief under section 340 of the Corporations Act 2001 (Cth) from synchronising the year-end of the following consolidated entities to 31 March:

- Macquarie Gas de Sonora S. De R.L de C.V.
- Comercializadora Energia de la Reforma S. de R.L. de C.V.

[1] As part of internal capital management, an additional investment of $3,673 million was made in Macquarie Americas Holdings Pty Limited which was primarily used to repay amounts due to the Bank.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 17
Deed of cross guarantee

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

Consolidated income statements and a summary of movements in consolidated retained earnings

The above entities represent a 'Closed Group' (the Closed Group) for the purpose of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by MBL they also represent the 'Extended Closed Group'.

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

	2016 $m	2015 $m
Interest and similar income	4,142	3,751
Interest expense and similar charges	(2,770)	(2,400)
Net interest income	1,372	1,351
Fee and commission income	559	318
Net trading income	1,370	1,994
Share of net profits of associates and joint ventures accounted for using the equity method	–	–
Other operating income and charges	2,979	998
Net operating income	6,280	4,661
Employment expenses	(1,039)	(1,032)
Brokerage, commission and trading-related expenses	(439)	(450)
Occupancy expenses	(84)	(92)
Non-salary technology expenses	(133)	(86)
Other operating expenses	(1,208)	(1,058)
Total operating expenses	(2,903)	(2,718)
Operating profit before income tax	3,377	1,943
Income tax expense	(243)	(249)
Profit from ordinary activities after income tax	3,134	1,694
Profit/(loss) from discontinued operations (net of income tax)	641	(32)
Profit from ordinary and discontinued operations attributable to equity holders of the Closed Group	3,775	1,662
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year[1]	1,872	868
Profit attributable to equity holders of the Closed Group	3,775	1,662
Dividends paid or provided for	(3,570)	(653)
Retained earnings at the end of the financial year	2,077	1,877

(1) The opening retained earnings of the Closed Group for 2016 includes the opening retained earnings of Macquarie Investors Pty Limited ($5 million) which entered into the deed of cross guarantee in the year ended 31 March 2016.

Note 17

Deed of cross guarantee continued

Consolidated statements of financial position of the Closed Group as at 31 March 2016:

	2016 $m	2015 $m
Assets		
Receivables from financial institutions	28,296	24,134
Trading portfolio assets	18,156	22,917
Derivative assets	15,137	17,437
Investment securities available for sale	8,494	5,406
Other assets	4,340	4,793
Loan assets held at amortised cost	58,569	49,003
Other financial assets at fair value through profit or loss	1,005	1,275
Due from related body corporate entities	32,875	2,327
Due from subsidiaries	1,032	36,210
Property, plant and equipment	374	390
Interests in associates and joint ventures accounted for using the equity method	73	69
Intangible assets	142	123
Investments in subsidiaries	3,750	3,682
Deferred tax assets	267	213
Assets of disposals group classified as held for sale	85	187
Total assets	172,595	168,166
Liabilities		
Trading portfolio liabilities	4,824	4,803
Derivative liabilities	13,474	16,736
Deposits	50,952	46,356
Other liabilities	4,562	5,837
Payables to financial institutions	17,468	14,655
Other financial liabilities at fair value through profit or loss	4,062	2,297
Due to related body corporate entities	5,909	8,543
Due to subsidiaries	14,960	19,205
Debt issued at amortised cost	40,242	35,149
Provisions	57	63
Deferred tax liabilities	139	121
Liabilities of disposals group classified as held for sale	–	175
Total liabilities excluding loan capital	156,649	153,940
Loan capital		
Subordinated debt at amortised cost	4,078	3,240
Total loan capital	4,078	3,240
Total liabilities	160,727	157,180
Net assets	11,868	10,986
Equity		
Contributed equity	9,808	9,105
Reserves	(17)	4
Retained earnings	2,077	1,877
Total equity	11,868	10,986

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for the financial year ended 31 March 2016
continued

Note 18
Deferred tax assets/(liabilities)

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
The balance comprises temporary differences attributable to:				
Other assets and liabilities	**460**	515	**266**	284
Tax losses	**315**	348	**11**	38
Fixed assets	**78**	30	**76**	26
Investments	**75**	9	**79**	40
Leasing and financial instruments	**12**	32	**–**	25
Intangible assets	**7**	9	**5**	2
Set-off of deferred tax liabilities	**(778)**	(705)	**(158)**	(207)
Total deferred tax assets	**169**	238	**279**	208
Leasing and financial instruments	**(908)**	(828)	**(158)**	(207)
Other assets and liabilities	**(209)**	(152)	**(138)**	(96)
Investments	**(62)**	(88)	**–**	–
Intangible assets	**(4)**	(5)	**–**	–
Fixed assets	**(1)**	(10)	**–**	–
Set-off of deferred tax assets	**778**	705	**158**	207
Total deferred tax liabilities	**(406)**	(378)	**(138)**	(96)
Net deferred tax (liabilities)/assets	**(237)**	(140)	**141**	112

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

Potential tax assets of approximately $64 million (2015: $36 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable. Included in this amount are gross losses of $4 million (2015: $4 million) that will expire in 2–5 years and $128 million (2015: $138 million) that will expire in 10–20 years. $261 million (2015: $91 million) of gross losses do not expire and can be carried forward indefinitely.

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 19

Trading portfolio liabilities

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Listed equity securities	**4,231**	4,469	**4,261**	4,469
Foreign government securities	**492**	336	**492**	219
Corporate securities	**71**	115	**71**	115
Commodities	**–**	125	**–**	–
Total trading portfolio liabilities	**4,794**	5,045	**4,824**	4,803

Note 20

Deposits

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Interest bearing deposits				
Call	**32,748**	30,308	**32,709**	30,303
Term	**8,860**	8,099	**8,847**	8,099
Client monies, segregated fund and margin money held	**9,082**	7,722	**7,930**	6,757
Non-interest bearing call deposits	**1,538**	1,204	**1,466**	1,197
Total deposits	**52,228**	47,333	**50,952**	46,356

Note 21

Other liabilities

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Due to brokers and customers	**2,148**	2,550	**2,043**	2,401
Creditors	**1,929**	3,603	**1,144**	2,238
Accrued charges, income received in advance and other	**1,158**	999	**624**	583
Maintenance	**772**	609	**669**	586
Life investment contracts and other unitholder liabilities	**771**	1,004	**–**	–
Income tax payable	**343**	497	**138**	96
Total other liabilities	**7,121**	9,262	**4,618**	5,904

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

Note 22

Payables to financial institutions

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
OECD banks	**10,756**	2,070	**7,983**	1,428
Cash collateral on securities lent and repurchase agreements	**8,872**	11,374	**8,870**	12,012
Other	**927**	1,430	**615**	1,215
Total payables to financial institutions	**20,555**	14,874	**17,468**	14,655

Notes to the financial statements
for the financial year ended 31 March 2016
continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 23
Debt issued at amortised cost

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Debt issued at amortised cost[1]	**55,142**	53,033	**40,242**	35,149
Total debt issued at amortised cost	**55,142**	53,033	**40,242**	35,149

(1) Included within this balance are amounts payable to SPE note holders of $14,939 million (2015: $15,952 million).

The Consolidated Entity and the Bank have not had any defaults of principal, interest or other breaches with respect to its debt during the financial years reported.

Reconciliation of debt issued at amortised cost by major currency:

(In Australian dollar equivalent):

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
United States dollars	**25,278**	25,248	**23,849**	22,619
Australian dollars	**15,887**	15,151	**2,972**	2,178
Euro	**7,295**	3,996	**6,742**	3,708
Great British pounds	**3,055**	3,519	**3,055**	3,482
Swiss franc	**2,013**	1,715	**2,013**	1,715
Japanese yen	**724**	775	**724**	775
Yuan renminbi	**230**	140	**230**	140
Hong Kong dollars	**224**	205	**224**	205
Norwegian krone	**164**	162	**164**	162
Canadian dollars	**129**	1,949	**126**	–
Korean won	**104**	109	**104**	109
Singapore dollars	**39**	56	**39**	56
Others	**–**	8	**–**	–
Total by currency	**55,142**	53,033	**40,242**	35,149

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

Note 24
Other financial liabilities at fair value through profit or loss

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Structured notes[1],[2]	**2,307**	1,237	**4,062**	2,297
Total other financial liabilities at fair value through profit or loss	**2,307**	1,237	**4,062**	2,297

(1) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates or other assets.
(2) Cumulative gains of $49 million have been recognised within profit and loss due to changes in the Consolidated Entity's credit risk (Refer Note 2).

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

(In Australian dollar equivalent):

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
United States dollars	**2,113**	1,067	**2,113**	1,067
Australian dollars	**60**	31	**1,856**	1,178
South African rand	**56**	–	**56**	–
Euro	**50**	77	**14**	15
Others	**28**	62	**23**	37
Total by currency	**2,307**	1,237	**4,062**	2,297

Note 25

Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

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

Regulatory capital requirements are measured for the Bank and certain subsidiaries which meet the definition of Extended Licensed Entities (Level 1 reporting), and for the Banking Group (Level 2 reporting). Level 2 consists of the Bank, its subsidiaries and its immediate parent less certain subsidiaries of the Bank which are deconsolidated for APRA reporting purposes. These include mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations.

APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of capital to risk weighted assets of 8% at both Level 1 and Level 2, with at least 6% of this capital in the form of Tier 1 capital and at least 4.5% of this minimum capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels.

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

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 26
Loan capital

Subordinated debt

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the Consolidated Entity. Details of selected capital instruments are discussed below.

Macquarie Bank Capital Notes (BCN)

On 8 October 2014, MBL issued 4.3 million BCN at face value of $100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

BCN may also be exchanged into a variable number of the Company's ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 24 March 2023. The BCN may also be exchanged earlier on an acquisition event (where a person acquires control of MGL or the bank) or where APRA determines Macquarie Bank Limited would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, BCN Holders will receive up to approximately $101 worth of ordinary shares per BCN held. The total number of ordinary shares that would be issued if BCN were exchanged at 31 March 2016 would be 6,496,150 (31 March 2015: 5,704,369). The maximum number of ordinary shares that can be issued on an exchange is 37,056,481.

The BCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 3.30% per annum, adjusted for franking credits, paid semi-annually. If interest is not paid on the BCN, Macquarie Bank Limited will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

Exchangeable Capital Securities (ECS)

On 26 March 2012, MBL, acting through its London Branch, issued $US250 million of ECS.

The ECS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 10.25% per annum, payable semi-annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. If interest is not paid on the ECS, MBL and the Company will be restricted from paying dividends or returning capital on their ordinary shares until the next interest payment date.

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid ordinary shares of the Company on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of MGL or the Bank), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of the Company's ordinary shares will be issued at a 5% discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange.

No ECS were exchanged during the financial year. The total number of ordinary shares that would be issued if ECS were exchanged at 31 March 2016 would be 5,134,261 (31 March 2015: 4,546,959). The maximum number of ordinary shares that can be issued on an exchange is 17,689,525.

The ECS will only be redeemable, subject to APRA's written approval, at the discretion of MBL in limited circumstances, including following a change in law that has an impact on the regulatory or tax treatment of the ECS.

As at 31 March 2016, the remaining principal liability related to the ECS was $US250 million (31 March 2015: $US250 million).

Note 26

Loan capital continued

Maturity and currency profiles of loan capital instruments

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Instruments upon which the Consolidated Entity has committed to repay the principal sum to the lenders are as follows:				
Less than 12 months	**88**	78	**88**	78
30 May 2019	**3**	–	**3**	–
21 September 2020	**754**	953	**754**	953
7 April 2021	**1,456**	1,461	**1,456**	1,461
10 June 2025	**1,037**	–	**1,037**	–
Instruments with a conditional repayment obligation:				
BCN	**430**	430	**430**	430
ECS	**326**	329	**326**	329
	4,094	3,251	**4,094**	3,251
Less directly attributable issue cost	**(16)**	(11)	**(16)**	(11)
Total loan capital[1]	**4,078**	3,240	**4,078**	3,240

Reconciliation of loan capital by major currency:

(In Australian dollar equivalent):

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
United States dollars	**2,889**	1,842	**2,889**	1,842
Euro	**775**	979	**775**	979
Australian dollars	**430**	430	**430**	430
	4,094	3,251	**4,094**	3,251
Less directly attributable issue cost	**(16)**	(11)	**(16)**	(11)
Total loan capital[1]	**4,078**	3,240	**4,078**	3,240

(1) The balance is net of fair value hedge accounting adjustments.

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

In accordance with APRA guidelines, the Consolidated Entity includes the applicable portion of the subordinated debt as Tier 2 capital and the ECS as Additional Tier 1 capital.

Notes to the financial statements
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continued

	Consolidated and Bank		Consolidated and Bank	
	2016 Number of shares	2015 Number of shares	**2016 $m**	2015 $m

Note 27
Contributed equity

	2016 Number of shares	2015 Number of shares	**2016 $m**	2015 $m
Ordinary share capital[1]				
Opening balance of fully paid ordinary shares	**552,066,999**	501,561,948	**8,528**	7,578
Issue of shares to Macquarie B.H. Pty Limited on 16 December 2015 at $21.50 per share	**27,906,978**	–	**600**	–
Issue of shares to Macquarie B.H. Pty Limited on 23 March 2016 at $21.50 per share	**9,302,326**	–	**200**	–
Issue of shares to Macquarie B.H. Pty Limited on 17 December 2014 at $18.81 per share	**–**	23,923,445	**–**	450
Issue of shares to Macquarie B.H. Pty Limited on 25 March 2015 at $18.81 per share	**–**	26,581,606	**–**	500
Closing balance of fully paid ordinary shares	**589,276,303**	552,066,999	**9,328**	8,528

(1) Ordinary shares have no par value.

	Consolidated 2016 $m	Consolidated 2015 $m	**Bank 2016 $m**	Bank 2015 $m
Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	**163**	132	**79**	81
Additional paid up capital/(return of capital)	**–**	31	**10**	(2)
Balance at the end of the financial year	**163**	163	**89**	79

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 27

Contributed equity continued

Macquarie Income Securities

4,000,000 Macquarie Income Securities of $100 each	**400**	400	**400**	400
Less transaction costs for original placement	**(9)**	(9)	**(9)**	(9)
Total Macquarie Income Securities	**391**	391	**391**	391

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

Convertible Debentures

850 convertible debentures of £50,000 each	**–**	–	**–**	107
Total convertible debentures	**–**	–	**–**	107

As part of the issue of the Macquarie Income Preferred Securities (refer to Note 28 – Reserves, retained earnings and non-controlling interests) the London branch of the Bank issued reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a subsidiary of the Bank. During the year all of the 850 convertible debentures have been redeemed.

Contributed equity	**9,882**	9,082	**9,808**	9,105

Notes to the financial statements
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continued

Note 28
Reserves, retained earnings and non-controlling interests

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**619**	(107)	**(23)**	(29)
Exchange differences on translation of foreign operations, net of hedge and tax	**(127)**	726	**5**	6
Balance at the end of the financial year	**492**	619	**(18)**	(23)
Available for sale reserve				
Balance at the beginning of the financial year	**71**	67	**61**	48
Revaluation movement for the financial year, net of tax	**38**	(9)	**(23)**	16
Transfer to income statement on impairment, net of tax	**23**	37	**15**	19
Transfer to income statement on realisation, net of tax	**(20)**	(24)	**5**	(22)
Balance at the end of the financial year	**112**	71	**58**	61
Cash flow hedging reserve				
Balance at the beginning of the financial year	**(88)**	(28)	**(2)**	3
Revaluation movement for the financial year, net of tax	**(34)**	(60)	**(14)**	(5)
Balance at the end of the financial year	**(122)**	(88)	**(16)**	(2)
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	**1**	–	**–**	–
Share of other comprehensive income during the financial year	**–**	1	**–**	–
Balance at the end of the financial year	**1**	1	**–**	–
Total reserves at the end of the financial year	**483**	603	**24**	36
Retained earnings				
Balance at the beginning of the financial year	**1,831**	1,388	**1,236**	499
Profit attributable to equity holders of MBL	**2,106**	1,114	**3,659**	1,395
Distributions paid or provided on Macquarie Income Securities (Note 5)	**(16)**	(18)	**–**	–
Distributions paid or provided on convertible debentures (Note 5)	**–**	–	**(1)**	(5)
Dividends paid on ordinary share capital (Note 5)	**(1,580)**	(653)	**(3,570)**	(653)
Premium on redemption of convertible debentures	**–**	–	**20**	–
Loss on change in ownership interest	**(8)**	–	**–**	–
Balance at the end of the financial year	**2,333**	1,831	**1,344**	1,236

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 28

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Preferred Securities

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. £307.5 million of MIPS were cancelled in September 2009 with the remaining £42.5 million redeemed in June 2015.

These instruments are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation* and reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with NCI share of profit after tax.

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Macquarie Income Preferred Securities				
Proceeds on issue of Macquarie Income Preferred Securities	**–**	109	**–**	–
Less issue costs	**–**	(1)	**–**	–
	–	108	**–**	–
Foreign currency translation reserve	**–**	(26)	**–**	–
Total Macquarie Income Preferred Securities	**–**	82	**–**	–
Other non-controlling interests[1]				
Ordinary share capital	**46**	1	**–**	–
Retained earnings	**(34)**	–	**–**	–
Total other non-controlling interests	**12**	1	**–**	–
Total non-controlling interests	**12**	83	**–**	–

(1) Other NCI represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the consolidated group.

Note 29

Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to related items in the statements of financial position as follows:

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Receivables from financial institutions[1]	**7,573**	8,662	**5,168**	6,907
Trading portfolio assets[2]	**247**	1,134	**247**	444
Debt investment securities available for sale[3]	**1,491**	1,129	**1,491**	1,129
Loan assets held at amortised cost[4]	**3,399**	3,738	**1,795**	2,200
Cash and cash equivalents at the end of the financial year[5]	**12,710**	14,663	**8,701**	10,680

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.
(2) Includes certificates of deposit, bank bills, treasury notes and other short-term debt securities.
(3) Includes short-term debt securities.
(4) Includes amounts due from clearing houses.
(5) Cash and cash equivalents include $5,480 million (31 March 2015: $4,316 million) in the Consolidated Entity and $2,978 million (31 March 2015: $2,447 million) in the Bank in escrow accounts which are restricted for use and held by collaterised securitisation vehicles in segregated deposit fund.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 29
Notes to the statements of cash flows continued

Reconciliation of profit after income tax to net cash flows from/(used in) operating activities

	Consolidated 2016 $m	Consolidated 2015 $m	**Bank 2016 $m**	Bank 2015 $m
Profit after income tax	**2,095**	1,119	**3,659**	1,395
Adjustments to profit after income tax:				
Depreciation and amortisation	**731**	495	**63**	54
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**349**	133	**1,009**	19
In specie distribution received	**–**	–	**(2,121)**	–
Provision and impairment charge on financial and non-financial assets	**617**	577	**463**	494
Interest on available for sale financial assets	**(40)**	(260)	**–**	(157)
Profit from discontinued operations	**(1,040)**	–	**(641)**	–
Net gains on sale of investment securities available for sale, associates and joint ventures and operating lease assets	**(32)**	(446)	**21**	(64)
Share of net (profits)/losses of associates and joint ventures accounted for using the equity method	**(22)**	17	**–**	–
Capitalisation of development cost of intangibles	**(69)**	–	**(69)**	–
Changes in assets and liabilities:				
Change in dividends receivable	**–**	(113)	**–**	(106)
Change in values of associates due to dividends received	**12**	12	**–**	–
Change in fees and non-interest income receivable	**27**	44	**21**	(29)
Change in fees and commissions payable	**19**	(2)	**16**	27
Change in tax balances	**116**	462	**164**	102
Change in provisions for employee entitlements	**(4)**	97	**(4)**	–
Change in lease assets, net of depreciation, foreign exchange and impairment	**(694)**	(831)	**–**	–
Change in loan assets	**(1,080)**	(9,303)	**(9,279)**	(13,349)
Change in margin money placed	**295**	(3,068)	**570**	(2,589)
Change in debtors, prepayments, accrued charges and creditors	**(533)**	847	**(290)**	449
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(3,911)**	(13,729)	**(5,009)**	(8,971)
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**15,124**	20,546	**15,627**	18,746
Net cash flows from/(used in) operating activities	**11,960**	(3,403)	**4,200**	(3,979)

Note 30

Related party information

Ultimate and immediate parent entities

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

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

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

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

	Consolidated 2016 $m	Consolidated 2015 $m	**Bank 2016 $m**	Bank 2015 $m
Amounts receivable[1]	**123**	77	**64**	42

[1] As described in Note 1(xxi) – Summary of significant accounting policies, the amounts receivable by the Bank includes $89 million (2015: $70 million) for amounts paid in advance for MEREP awards offered to their employees and yet to be recognised as a share-based payment expense.

Subsidiaries

Transactions between the Bank and its subsidiaries principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Bank except when the parties have the legal right and intention to offset.

Balances arising from lending and borrowing activities between the Bank and subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The Bank enters into legal arrangements with certain subsidiaries and their customers whereby security deposits and maintenance claims are defeased to the Bank. This removes the legal requirement for the subsidiary to reimburse the external counterpart and that liability sits with the Bank. As of 31 March 2016 these defeased balances were $584 million (2015: $509 million) and $130 million (2015: $105 million) for maintenance and security deposits respectively.

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 30
Related party information continued

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Interest income received/receivable	–	–	569	401
Interest expense paid/payable	–	–	(433)	(369)
Fee and commission income	–	–	184	141
Other operating income	–	–	125	86
Dividends and distributions	–	–	2,920	931
Management fees, group service charges and cost recoveries	–	–	356	381

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Amounts receivable	–	–	30,348	33,102
Amounts payable	–	–	(15,312)	(15,531)

Other related body corporate entities

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

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

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Interest income received/receivable	35	8	–	17
Interest expense paid/payable	(292)	(230)	(228)	(194)
Occupancy income	21	9	21	9
Fee and commission expense	(120)	(328)	(159)	(314)
Other operating expenses	(1,248)	(1,179)	(1,034)	(985)
Other income	1	5	1	3

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Amounts receivable	1,487	1,086	968	944
Amounts payable	(7,555)	(7,700)	(5,910)	(7,084)

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m

Note 30

Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures that are equity accounted are eliminated where they are unrealised, to the extent of ownership interests held by the Consolidated Entity, in the consolidated income statements.

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

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Interest income received/receivable	**125**	22	**125**	22
Fee and commission (expense)/income	**(35)**	45	**(51)**	(52)
Brokerage, commission and trading related expense	**(10)**	(7)	**(10)**	(7)
Dividends and distributions[1]	**12**	12	**–**	–

[1] Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not taken up as income but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in Note 14 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Amounts receivable	**700**	924	**700**	917
Amounts payable	**(4)**	(113)	**(4)**	(113)

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 31
Key Management Personnel disclosure

Key Management Personnel

The following persons were Directors of the Bank during the financial years ended 31 March 2016 and 31 March 2015, unless indicated:

Executive Voting Directors[1]

N.W. Moore	Macquarie Managing Director and CEO
M.J. Reemst[2]	Macquarie Bank CEO

Non-Executive Directors

H.K. McCann AM[3]	Non-Executive Chairman
P.H. Warne[4]	
G.R. Banks AO	
G.M. Cairns[5]	
M.J. Coleman	
P.A. Cross	
D.J. Grady AM	
M.J. Hawker AM	
N.M. Wakefield Evans	

Former Non-Executive Directors

P.M. Kirby	(retired on 24 July 2014)
H.M. Nugent AO	(retired on 24 July 2014)

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the past two financial years ended 31 March 2016 and 31 March 2015, unless otherwise indicated.

Current Executives[1]

S.D. Allen	Head of RMG
B.A. Brazil[2]	Co-Head of CAF
A.J. Downe	Head of CFM
G.A. Farrell	Co-Head of CAF
M. McLaughlin	Country Head, United States of America
N. Sorbara	Head of COG
P.C. Upfold[2]	CFO and Head of FMG
S. Vrcelj	Head of MSG
G.C. Ward	Macquarie Group Deputy Managing Director and Head of BFS[6]
S. Wikramanayake	Head of MAM

(1) The Executive Voting Directors and all current Executives are members of the Bank's Executive Committee as at 8 May 2016.
(2) Effective from 1 July 2014.
(3) H.K. McCann retired as Chairman and as a Voting Director on 31 March 2016.
(4) P.H. Warne replaced Mr McCann as Chairman effective on Mr McCann's retirement.
(5) Effective from 1 November 2014.
(6) Resigned from the Board on 30 June 2014, but remains a member of the Executive Committee.

The remuneration arrangements for all of the persons listed above are described on pages 22 to 29 of the Remuneration Report, contained in the Directors' Report.

Note 31

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following table details the aggregate remuneration for Key Management Personnel (KMP):

	Short-term Employee Benefits				Long-term Employee Benefits	Share-based Payments		
	Salary and fees (including superannuation) $	Performance related remuneration[1] $	Other benefits $	Total short-term Employee Benefits $	Restricted profit share including earnings on restricted profit share[2] $	Equity awards including shares[3] $	PSUs[4] $	Total remuneration $
Executive Remuneration								
2016	**6,272,793**	**25,888,470**	**–**	**32,161,263**	**5,098,692**	**21,434,595**	**14,127,550**	**72,822,100**
2015	6,025,360	28,048,814	–	34,074,174	9,758,972	18,139,621	10,160,554	72,133,321
Non-Executive Remuneration								
2016	**815,000**	**–**	**4,500**	**819,500**	**–**	**–**	**–**	**819,500**
2015	791,949	–	2,400	794,349	–	–	–	794,349

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

(2) The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS plan) including earnings on notional investments from retained profit share in prior financial years.

(3) The current year amortisation for retained profit share calculated as described in Note 1(xxi) – Summary of significant accounting policies.

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

Loans to Key Management Personnel and their related parties

Details of loans provided by the Consolidated Entity to KMP and their related parties are disclosed in aggregate in the following tables:

Total for Key Management Personnel and their related parties	Opening balance at 1 April $'000	Interest charged $'000	Write-downs $'000	Closing balance at 31 March[1] $'000
2016	**559**	**9**	**–**	**–**
2015	600	14	–	559

(1) Number of persons included in the aggregate at 31 March 2016: 1 (31 March 2015: 1).

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

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 32
Employee equity participation

Macquarie Group Employee Retained Equity Plan

MGL continues to operate the MEREP in conjunction with remuneration arrangements. These arrangements include a portion of staff profit share paid in cash and a portion delivered as MGL equity, the proportion of deferred remuneration and cessation of option grants under the MGESOP.

Award Types under the MEREP

Restricted Share Units (RSUs)

A RSU is a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the plan trustee (Trustee).

The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights in the share. The participant also has the right to request the release of the share from the Trust, subject to the vesting and forfeiture provisions of the MEREP.

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on MGL shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of MGL shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights on any underlying MGL shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs). DSUs have been granted with an expiry period of eight years.

Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs.

Restricted Shares

A Restricted Share is a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on Restricted Shares and to vote. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

Note 32

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

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

	Number of RSU Awards 2016	Number of RSU Awards 2015
RSUs on issue at the beginning of the financial year	**8,565,941**	9,408,821
Granted during the financial year	**1,775,624**	2,258,701
Forfeited during the financial year	**(200,366)**	(218,929)
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(2,693,958)**	(2,879,296)
Transfers from related body corporate entities	**(262,567)**	(3,356)
RSUs on issue at the end of the financial year	**7,184,674**	8,565,941
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**1,391**	316

The weighted average fair value of the RSU Awards granted during the financial year was $81.55 (2015: $59.72).

	Number of DSU Awards 2016	Number of DSU Awards 2015
DSUs on issue at the beginning of the financial year	**1,224,566**	1,325,381
Granted during the financial year	**380,864**	325,023
Forfeited during the financial year	**(16,025)**	(15,026)
Exercised during the financial year	**(310,427)**	(406,633)
Transfers from related body corporate entities	**11,512**	(4,179)
DSUs on issue at the end of the financial year	**1,290,490**	1,224,566
DSUs exercisable at the end of the financial year	**206,767**	146,068

The weighted average fair value of the DSU Awards granted during the financial year was $81.60 (2015: $59.77).

	Number of PSU Awards 2016	Number of PSU Awards 2015
PSUs on issue at the beginning of the financial year	**511,060**	487,765
Granted during the financial year	**117,105**	120,825
Exercised during the financial year	**(142,792)**	(55,669)
Transfers from related body corporate entities	**26,369**	–
Expired during the financial year	**(29,311)**	(41,861)
PSUs on issue at the end of the financial year	**482,431**	511,060
PSUs exercisable at the end of the financial year	**–**	–

The weighted average fair value of the PSU Awards granted during the financial year was $66.77 (2015: $47.89).

	Number of Restricted Share Awards 2016	Number of Restricted Share Awards 2015
Restricted shares on issue at the beginning of the financial year	**5,518**	28,928
Granted during the financial year	**68,254**	–
Released during the financial year	**(36,295)**	(23,410)
Transfers from related body corporate entities	**8,706**	–
Restricted shares on issue at the end of the financial year	**46,183**	5,518

The weighted average fair value of the restricted shares granted during the financial year was $79.96 (2015: no restricted shares granted).

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 32

Employee equity participation continued

The awards are measured at their grant dates based on their fair value and for each PSU the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance.

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members, have been granted in the current year in respect of 2015. The fair value of each of these grants is estimated using Macquarie's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

– interest rate to maturity: 2.45%
– expected vest dates of PSU: 1 July 2018 and 1 July 2019, and
– dividend yield: 4.73% per annum.

While RSUs/DSUs, and PSUs for Executive Committee members, in respect of the current year's performance will be granted in the following financial year, MGL begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using Macquarie's share price as at 31 March 2016 (and for PSUs, also incorporates an interest rate to maturity of 2.32%; expected vest dates of PSU: 1 July 2019 and 1 July 2020; and a dividend yield of 4.57% per annum) and the number of equity instruments expected to vest. In the following financial year, MGL will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

MGL annually revises its estimates of the number of awards (including those delivered through MEREP) that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

For the financial year ended 31 March 2016, compensation expense relating to the MEREP totalled $132 million (2015: $165 million).

Participation in the MEREP is currently provided to the following Eligible Employees:

– Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
– Executive Directors with pre-2009 retained DPS (which they elected to transition into the MEREP)
– staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
– Macquarie Group staff with retained commission (Commission Awards)
– Macquarie Group staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards)
– new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)
– members of the MBL and MGL Executive Committees who are eligible for PSUs, and
– in limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Group upon the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

Note 32

Employee equity participation continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant[1]
Retained DPS Awards representing 2009 retention	Executive Director	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant[2]
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5th in the 3rd, 4th, 5th, 6th and 7th year following the year of grant[2]
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3rd in the 3rd, 4th and 5th year following the year of grant[1]
PSU Awards granted in relation to 2012 and following years	Executive Committee members	50% three and four years after the year of grant[3]
PSU Awards granted in relation to 2009, 2010 and 2011	Executive Committee members	1/3rd on or after each 1 July, two, three and four years after the year of grant[3]
Pre-2009 DPS Transitioned into the MEREP	Executive Committee members	1/7th each year from 2010 to 2016[2]
Pre-2009 DPS Transitioned into the MEREP	Executive Directors (other than those on the Executive Committee)	1/5th each year from 1 July 2010 to 1 July 2014[2]
Commission Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant[1]
Incentive Awards	All Macquarie Group staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation
New Hire Awards	All Director-level staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation

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

(2) Vesting will occur during an eligible staff trading window. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.

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

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Note 32

Employee equity participation continued

In limited cases, the Application Form for awards may set out a different vesting period, in which case that period will be the vesting period for the Award. For example, staff in jurisdictions outside Australia may have a different vesting period due to local regulatory requirements.

For Retained Profit Share Awards representing 2015 retention, the allocation price was the weighted average price of the Shares acquired for the 2015 Purchase Period, which was 18 May 2015 to 6 July 2015 inclusive (excluding the period from 26 May to 11 June 2015). That price was calculated to be $80.68 (2014 retention: $59.56).

Performance Share Units

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded. Hurdles are periodically examined by the BRC as part of their ongoing review of the remuneration approach, to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2016.

The hurdles are outlined below.

Performance hurdle 1

Hurdle	Reference group	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period compared with a reference group of global peers. A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.	The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Limited, Morgan Stanley and UBS AG.	The reference group comprises ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation, Suncorp Metway Limited, Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group AG, JP Morgan Chase, Morgan Stanley and UBS AG.

Performance hurdle 2

Hurdle	Required result	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12.0%. For example, if EPS CAGR were 9.75%, 75% of the Award would become exercisable.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9.0% and 100% at EPS CAGR of 13.0%. For example, if EPS CAGR were 11.0%, 75% of the Award would become exercisable.

Under both performance hurdles, the objective is to be examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting.

Other arrangements

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

Compensation expense relating to these awards for the financial year ended 31 March 2016 was $0.03 million (2015: $0.02 million).

Note 32

Employee equity participation continued

Employee Share Plan

MGL continues to operate the ESP whereby each financial year eligible employees are offered up to $1,000 worth of fully paid ordinary Macquarie shares for no cash payment.

Shares allocated under the ESP cannot be sold until the earlier of three years after allocation or the time when the participant is no longer employed by MGL or a subsidiary of MGL. In all other respects, shares allocated rank equally with all other fully paid ordinary shares then on issue.

The latest offer under the ESP was made during November 2015. A total of 602 (2015: 571) staff participated in this offer. On 8 December 2015, the participants were each allocated 12 (2015: 16) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $82.13 (2015: $59.27), a total of 7,224 (2015: 9,136) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

Historical Share Plans

Shares are no longer being issued or purchased under the MGSSAP nor the NED Share Acquisition Plan. However employees and NEDs still hold shares issued in previous years.

Other plans

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

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Note 33
Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Contingent liabilities exist in respect of:				
Letters of credit	**708**	597	**701**	1,126
Performance related contingents	**315**	276	**315**	287
Guarantees	**150**	146	**564**	739
Indemnities	**58**	15	**58**	15
Total contingent liabilities[(1),(2),(3)]	**1,231**	1,034	**1,638**	2,167
Commitments exist in respect of:				
Undrawn credit facilities and securities underwriting[(4)]	**4,806**	3,664	**4,046**	3,114
Forward asset purchases	**761**	5,347	**719**	5,286
Total commitments	**5,567**	9,011	**4,765**	8,400
Total contingent liabilities and commitments	**6,798**	10,045	**6,403**	10,567

(1) The Company guarantees the performance obligation of certain subsidiaries in relation to their external obligations.
(2) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. Other than those recognised liabilities, the Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.
(3) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(4) Undrawn credit facilities are irrevocable extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

Note 34
Lease commitments

	Consolidated 2016 $m	Consolidated 2015 $m	Bank 2016 $m	Bank 2015 $m
Non-cancellable operating leases expiring:				
Not later than one year	**6**	4	**–**	–
Later than one year and not later than five years	**11**	5	**–**	–
Later than five years	**4**	1	**–**	–
Total operating lease commitments	**21**	10	**–**	–

Operating leases relate to commercial buildings. The future lease commitments disclosed are net of any rental incentives received.

Note 35

Structured entities

The Consolidated Entity engages in various transactions with Structured entities (SEs). SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (for example decisions relate to administrative tasks only, and contractual arrangements determine the direction of activities). Generally, SEs do not have a range of operating and financing activities for which substantive decision making is required continuously. The Consolidated Entity has interests in SEs that are involved in securitisations and asset-backed financing structures.

Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets of the Consolidated Entity or of its clients.

The Consolidated Entity engages in securitisation of mortgages, finance leases, credit card receivables and other types of instruments. The Consolidated Entity may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual interest units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

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

Asset-backed financing

Asset-backed vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Consolidated Entity or its clients. The assets are normally pledged as collateral to the lenders.

The Consolidated Entity engages in raising finance for assets such as aircraft, rail cars, electronic and IT equipment. The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

Income received by the Consolidated Entity during the financial year from interests held at the reporting date relates to revaluation of derivatives, dividends, interest and servicing fees.

Interests held

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

(i) creates rather than absorbs variability of the unconsolidated SE (for example purchase of credit protection under a credit default swap)
(ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs, and
(iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

Notes to the financial statements
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Note 35
Structured entities continued

The following tables present the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs:

	Nature of activity	
	Securitisations $m	Asset-backed financing $m
		Consolidated 2016
Carrying value of assets		
Trading portfolio assets	**306**	**795**
Derivative assets	**36**	**–**
Investment securities available for sale[(1)]	**1,404**	**83**
Loan assets held at amortised cost	**341**	**312**
Total carrying value of assets	**2,087**	**1,190**
Maximum exposure to loss		
Debt and equity held	**2,054**	**1,190**
Derivatives and undrawn commitments	**980**	**–**
Total maximum exposure to loss	**3,034**	**1,190**
		Consolidated 2015
Carrying value of assets		
Trading portfolio assets	145	–
Derivative assets	1	–
Investment securities available for sale[(1)]	1,692	129
Loan assets held at amortised cost	308	418
Total carrying value of assets	2,146	547
Maximum exposure to loss		
Debt and equity held	2,145	547
Derivatives and undrawn commitments	786	44
Total maximum exposure to loss	2,931	591

(1) Securitisations includes $924 million (2015: $1,198 million) of investments that are managed by the Consolidated Entity under the liquid assets holding policy described in Note 37.2 – Liquidity risk.

Note 35

Structured entities continued

Maximum exposure to loss is the carrying value of debt and equity held, the undrawn amount for commitments, the maximum amount guaranteed and the notional amounts of derivative instruments. The amounts for commitments, guarantees and derivatives are reduced for any liabilities already recognised.

Of the above interests, the Consolidated Entity holds $290 million (2015: $428 million) in subordinated interests, included in asset-backed financing activities. This carrying value also represents the maximum exposure to loss.

The subordinated asset-backed interests are included within investments available for sale and loans, involve unconsolidated SEs with total size of $457 million (2015: $1,419 million), and the potential loss borne by others whose interests rank lower is $7 million (2015: $9 million).

Size represents either the assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); the principal amount of liabilities if there is nominal equity; or the notional amounts of derivatives if the SE was designed to primarily obtain exposure synthetically through derivative instruments. Size is based on the most current publicly available information to the Consolidated Entity.

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Note 36
Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Consolidated Entity is an active price-maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price-making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in Note 1(xi) – Summary of significant accounting policies:

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from the consolidated mortgage securitisation vehicles and other structured products which are subject to variable interest rates. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non–trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps. The Consolidated Entity is also exposed to foreign exchange risk from foreign currency denominated issued debt and foreign currency denominated assets which are hedged with cross-currency swaps.

In addition to this, the interest rate swaps used to hedge the MIPS securities have been designated as cash flow hedges of an intercompany loan by the Bank in its separate financial statements. Changes in the fair value of these interest swaps are deferred in equity and subsequently released to earnings as the interest on the intercompany loan is accrued.

At 31 March 2016, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $47 million negative value (2015: $29 million negative value).

During the financial year the Consolidated Entity recognised $2 million of losses (2015: $1 million losses) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2016, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $184 million negative value (2015: $144 million negative value).

Fair value hedges: The Consolidated Entity's fair value hedges consist of:

– interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates, and
– foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2016, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $317 million positive value (2015: $8 million negative value).

During the financial year fair value gain on the hedging instruments of $325 million have been recognised (2015: $161 million losses), offset by $328 million (2015: $177 million gains) of losses on the hedged items.

Net investment in foreign operations hedges: The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its foreign operations.

At 31 March 2016, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $165 million positive value (2015: $108 million negative value). During the financial year the Consolidated Entity recognised $nil (2015: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to $4,768 million (2015: $2,814 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange gains of $112 million (2015: $464 million losses) on translation of the foreign currency borrowing to Australian dollars at the end of the reporting period is recognised in other comprehensive income.

The types of derivatives which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross–currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Note 37

Financial risk management

Risk Management Group

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are credit, liquidity, market, equity, conduct, regulatory, compliance, reputation, operational, legal, tax and insurance risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of the MGL Annual Report. Responsibility for management of these risks lies with the individual businesses giving rise to them. RMG independently assesses all material risks.

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

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Note 37.1
Financial risk management

Credit risk

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

The responsibility for approval of credit exposures is delegated to specific individuals by the Board. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and acceptable. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year, or more frequently if required. Retail credit exposures are monitored on a portfolio basis.

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Derivative exposures are measured using high confidence potential future underlying asset prices. To mitigate credit risk, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

Macquarie wholesale ratings broadly correspond to Standard & Poor's credit ratings as follows:

Credit Grading	Internal Rating	External Equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default(1)	MQ99	Default

(1) The Default category primarily correlates to the past due more than 90 days not impaired and individually impaired balances disclosed in the following pages.

Retail pools are mapped to the corresponding rating grade based on their probability of default. All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and ensure provisioning is adequate.

A review of the credit portfolio that involves monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk management framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is mitigated by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities, interests in associates and joint ventures or bank notes and coins.

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Note 37.1
Credit risk continued

Maximum exposure to credit risk

The table below details the concentration of maximum exposure to credit risk of the Consolidated Entity's financial assets, credit commitments and contingent liabilities by significant geographical locations and counterparty type. The maximum credit exposure is to each counterparty and does not take into consideration collateral or other credit enhancements (refer section on collateral and credit enhancements). The geographical location is determined by the domicile and industry type of the counterparty and prior year comparative information has been reclassified to conform to current year presentation.

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

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, $2,253 million reclassification from Asia Pacific and EMEA regions to Americas and Australia regions occurs.
(2) This balance excludes other non-financial assets of $2,618 million which are included in Note 9 – Other assets.

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

Notes to the financial statements
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Note 37.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions[1] $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m	Other financial assets[2] $m
Australia					
Governments	–	4,250	534	1,166	–
Financial institutions	3,998	200	3,207	3,313	1,389
Other	–	2	861	95	89
Total Australia	3,998	4,452	4,602	4,574	1,478
Asia Pacific					
Governments	–	651	1	91	46
Financial institutions	2,638	832	354	225	499
Other	–	461	348	–	989
Total Asia Pacific	2,638	1,944	703	316	1,534
Europe, Middle East and Africa					
Governments	–	126	84	–	129
Financial institutions	7,560	312	5,060	468	825
Other	–	57	2,481	379	857
Total Europe, Middle East and Africa	7,560	495	7,625	847	1,811
Americas					
Governments	–	1,557	159	–	–
Financial institutions	11,785	108	3,815	29	250
Other	–	580	3,048	249	840
Total Americas	11,785	2,245	7,022	278	1,090
Total gross credit risk	25,981	9,136	19,952	6,015	5,913

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, $2,960 million reclassification from Americas, Asia Pacific and Australia regions to EMEA region occurs.

(2) This balance excludes other non-financial assets of $1,905 million which are included in Note 9 – Other assets.

Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate $m	Credit commitments and contingent liabilities $m	Total $m
				Consolidated 2015
61	–	–	–	6,011
1,270	–	–	131	13,508
43,171	263	418	1,975	46,874
44,502	263	418	2,106	66,393
9	76	–	–	874
421	–	–	11	4,980
806	–	386	30	3,020
1,236	76	386	41	8,874
6	20	–	–	365
2,574	44	–	171	17,014
8,008	27	109	6,458	18,376
10,588	91	109	6,629	35,755
14	–	–	–	1,730
3,845	1	–	104	19,937
11,021	64	250	1,165	17,217
14,880	65	250	1,269	38,884
71,206	495	1,163	10,045	149,906

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Note 37.1
Credit risk continued
Maximum exposure to credit risk continued

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

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, $2,253 million reclassification from Asia Pacific and EMEA regions to Americas and Australia regions occurs.

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

Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
					Bank 2016
90	–	–	–	–	6,780
1,467	10	–	–	106	14,041
42,034	133	152	14,737	2,533	60,982
43,591	143	152	14,737	2,639	81,803
–	72	–	–	–	1,319
169	–	–	–	2	4,006
621	5	270	3,671	177	5,894
790	77	270	3,671	179	11,219
10	–	–	–	13	756
2,310	–	–	–	481	19,411
5,959	–	144	7,469	712	18,066
8,279	–	144	7,469	1,206	38,233
22	–	–	–	–	389
1,317	–	–	–	104	14,655
2,954	–	466	4,471	1,032	10,403
4,293	–	466	4,471	1,136	25,447
56,953	220	1,032	30,348	5,160	156,702

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Note 37.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions[(1)] $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m	Other financial assets[(2)] $m
Australia					
Governments	–	4,250	534	1,166	–
Financial institutions	3,321	200	–	3,071	1,290
Other	–	2	125	64	370
Total Australia	3,321	4,452	659	4,301	1,660
Asia Pacific					
Governments	–	440	1	91	45
Financial institutions	2,514	292	355	193	462
Other	–	42	342	–	920
Total Asia Pacific	2,514	774	698	284	1,427
Europe, Middle East and Africa					
Governments	–	126	84	–	29
Financial institutions	7,172	312	5,130	453	818
Other	–	57	2,077	163	554
Total Europe, Middle East and Africa	7,172	495	7,291	616	1,401
Americas					
Governments	–	868	4	–	–
Financial institutions	11,127	48	7,244	13	93
Other	–	429	1,541	36	22
Total Americas	11,127	1,345	8,789	49	115
Total gross credit risk	24,134	7,066	17,437	5,250	4,603

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, $2,962 million reclassification from Americas, Asia Pacific and Australia regions to EMEA region occurs.

(2) This balance excludes other non-financial assets of $185 million which are included in Note 9 – Other assets.

Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
					Bank 2015
43	–	–	–	–	5,993
1,232	–	–	–	131	9,245
31,629	289	357	15,366	1,889	50,091
32,904	289	357	15,366	2,020	65,329
3	76	–	–	–	656
265	–	–	–	11	4,092
656	–	344	5,723	138	8,165
924	76	344	5,723	149	12,913
2	20	–	–	–	261
2,744	42	–	–	171	16,842
6,297	–	100	7,382	6,530	23,160
9,043	62	100	7,382	6,701	40,263
13	–	–	–	–	885
631	1	–	–	63	19,220
4,196	64	185	4,631	1,634	12,738
4,840	65	185	4,631	1,697	32,843
47,711	492	986	33,102	10,567	151,348

Notes to the financial statements
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Note 37.1

Credit risk continued

Credit quality of financial assets

The table below details the credit quality of the Consolidated Entity's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements (refer to section on collateral and credit enhancements). Prior year comparative information has been reclassified to conform to current year presentation.

	Investment Grade $m	Below Investment Grade $m	Past due but not individually impaired[3] $m	Individually impaired $m	Total $m
					Consolidated 2016
Receivables from financial institutions[1]	26,510	4,446	–	–	30,956
Trading portfolio assets[2]					8,823
Governments	6,462	600	–	–	7,062
Financial institutions	727	147	–	–	874
Other	273	593	21	–	887
Derivative assets					17,962
Governments	696	3	–	–	699
Financial institutions	9,550	192	–	–	9,742
Other	4,522	2,999	–	–	7,521
Debt investment securities available for sale					8,582
Governments	1,432	–	–	–	1,432
Financial institutions	6,762	19	–	–	6,781
Other	16	353	–	–	369
Other financial assets[2]					4,300
Governments	298	73	39	–	410
Financial institutions	1,077	312	9	–	1,398
Other	1,366	1,080	42	4	2,492
Loan assets held at amortised cost					78,913
Governments	116	27	–	–	143
Financial institutions	7,607	1,345	–	–	8,952
Other	37,194	29,268	2,965	391	69,818
Other financial assets at fair value through profit or loss					241
Governments	72	–	–	–	72
Financial institutions	–	10	–	–	10
Other	–	152	3	4	159
Due from related body corporate entities					1,610
Other	1,610	–	–	–	1,610
Total	106,290	41,619	3,079	399	151,387

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, $1,761 million reclassification from investment grade to below investment grade occurs.
(2) Below investment grade trading portfolio assets and other financial assets include purchased distressed debt.
(3) Included in the past due category are balances which were overdue by one day or more.

Note 37.1

Credit risk continued

	Investment Grade $m	Below Investment Grade $m	Past due but not individually impaired[3] $m	Individually impaired $m	Total $m
					Consolidated 2015
Receivables from financial institutions[1]	23,094	2,887	–	–	25,981
Trading portfolio assets[2]					9,136
Governments	6,584	–	–	–	6,584
Financial institutions	1,184	268	–	–	1,452
Other	435	665	–	–	1,100
Derivative assets					19,952
Governments	769	9	–	–	778
Financial institutions	12,214	222	–	–	12,436
Other	3,903	2,835	–	–	6,738
Debt investment securities available for sale					6,015
Governments	1,257	–	–	–	1,257
Financial institutions	4,003	32	–	–	4,035
Other	85	516	122	–	723
Other financial assets[2]					5,913
Governments	158	17	–	–	175
Financial institutions	2,369	588	6	–	2,963
Other	2,015	669	65	26	2,775
Loan assets held at amortised cost					71,206
Governments	87	3	–	–	90
Financial institutions	6,289	1,821	–	–	8,110
Other	35,646	24,832	1,943	585	63,006
Other financial assets at fair value through profit or loss					495
Governments	96	–	–	–	96
Financial institutions	45	–	–	–	45
Other	19	319	14	2	354
Due from related body corporate entities					1,163
Other	1,163	–	–	–	1,163
Total	101,415	35,683	2,150	613	139,861

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, $2,965 million reclassification from investment grade to below investment grade occurs.

(2) Below investment grade trading portfolio assets and other financial assets include purchased distressed debt.

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

Notes to the financial statements
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continued

Note 37.1
Credit risk continued

	Investment Grade $m	Below Investment Grade $m	Past due but not individually impaired[4] $m	Individually impaired $m	Total $m
					Bank 2016
Receivables from financial institutions[1]	24,513	3,782	–	–	28,295
Trading portfolio assets[2]					7,714
Governments	6,194	600	–	–	6,794
Financial institutions	506	53	–	–	559
Other	36	304	21	–	361
Derivative assets					15,137
Governments	506	3	–	–	509
Financial institutions	9,197	192	–	–	9,389
Other	3,077	2,162	–	–	5,239
Debt investment securities available for sale					8,252
Governments	1,432	–	–	–	1,432
Financial institutions	6,599	–	–	–	6,599
Other	–	221	–	–	221
Other financial assets[2]					3,591
Governments	192	71	39	–	302
Financial institutions	1,050	249	6	–	1,305
Other	975	1,005	3	1	1,984
Loan assets held at amortised cost[3]					56,953
Governments	99	23	–	–	122
Financial institutions	4,821	442	–	–	5,263
Other	32,109	16,750	2,226	483	51,568
Other financial assets at fair value through profit or loss					220
Governments	72	–	–	–	72
Financial institutions	–	10	–	–	10
Other	–	133	3	2	138
Due from related body corporate entities					1,032
Other	1,032	–	–	–	1,032
Due from subsidiaries					30,348
Other	30,348	–	–	–	30,348
Total	122,758	26,000	2,298	486	151,542

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, $1,784 million reclassification from investment grade to below investment grade occurs.
(2) Below investment grade trading portfolio assets and other financial assets include purchased distressed debt.
(3) Includes residential mortgages where the Consolidated Entity has obtained Lender's Mortgage Insurance (LMI). Where LMI is obtained, the residential mortgage is classified as investment grade.
(4) Included in the past due category are balances in which an amount was overdue by one day or more.

Note 37.1
Credit risk continued

	Investment Grade $m	Below Investment Grade $m	Past due but not individually impaired[4] $m	Individually impaired $m	Total $m
					Bank 2015
Receivables from financial institutions[1]	21,318	2,816	–	–	24,134
Trading portfolio assets[2]					7,066
Governments	5,684	–	–	–	5,684
Financial institutions	659	193	–	–	852
Other	33	497	–	–	530
Derivative assets					17,437
Governments	614	9	–	–	623
Financial institutions	8,093	4,636	–	–	12,729
Other	2,636	1,449	–	–	4,085
Debt investment securities available for sale					5,250
Governments	1,257	–	–	–	1,257
Financial institutions	3,706	24	–	–	3,730
Other	–	141	122	–	263
Other financial assets[2]					4,603
Governments	45	29	–	–	74
Financial institutions	2,289	369	5	–	2,663
Other	1,272	578	4	12	1,866
Loan assets held at amortised cost[3]					47,711
Governments	61	–	–	–	61
Financial institutions	3,847	1,025	–	–	4,872
Other	27,439	13,380	1,211	748	42,778
Other financial assets at fair value through profit or loss					492
Governments	96	–	–	–	96
Financial institutions	40	3	–	–	43
Other	43	296	12	2	353
Due from related body corporate entities					986
Other	986	–	–	–	986
Due from subsidiaries					33,102
Other	33,102	–	–	–	33,102
Total	113,220	25,445	1,354	762	140,781

(1) Includes reverse repurchase agreements where the exposure is considered to be the underlying collateral on the reverse repurchase agreement. Where the maximum exposure to credit risk is considered to be the counterparty, $2,957 million reclassification from investment grade to below investment grade occurs.
(2) Below investment grade trading portfolio assets and other financial assets include purchased distressed debt.
(3) Includes residential mortgages where the Consolidated Entity has obtained Lender's Mortgage Insurance (LMI). Where LMI is obtained, the residential mortgage is classified as investment grade.
(4) Included in the past due category are balances in which an amount was overdue by one day or more.

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Note 37.1
Credit risk continued

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

Class of financial asset	Past due but not individually impaired Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Total past due but not individually impaired $m	Individually impaired $m	Total $m
							Consolidated 2016
Other financial assets							
Government	**39**	**–**	**–**	**–**	**39**	**–**	**39**
Financial institutions	**2**	**2**	**5**	**–**	**9**	**–**	**9**
Other	**29**	**5**	**2**	**6**	**42**	**4**	**46**
Loan assets held at amortised cost							
Other	**1,585**	**387**	**166**	**827**	**2,965**	**391**	**3,356**
Trading portfolio assets							
Other	**–**	**–**	**–**	**21**	**21**	**–**	**21**
Other financial assets at fair value through profit or loss							
Other	**–**	**2**	**1**	**–**	**3**	**4**	**7**
Total	**1,655**	**396**	**174**	**854**	**3,079**	**399**	**3,478**
Debt investment securities available for sale							Consolidated 2015
Other	–	–	–	122	122	–	122
Other financial assets							
Financial institutions	6	–	–	–	6	–	6
Other	46	7	2	10	65	26	91
Loan assets held at amortised cost							
Other	779	185	72	907	1,943	585	2,528
Other financial assets at fair value through profit or loss							
Other	13	1	–	–	14	2	16
Total	844	193	74	1,039	2,150	613	2,763

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance less provision is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in Note 1(xiv) – Summary of significant accounting policies.

Of the collateral held against past due or impaired balances for loan assets held at amortised cost, $1,663 million (2015: $1,058 million) relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due and impaired balances for other assets represents equity securities held as security against failed trade settlements.

Note 37.1
Credit risk continued

Class of financial asset	Past due but not individually impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Total past due but not individually impaired $m	Individually impaired $m	Total $m
							Bank 2016
Debt investment securities available for sale							
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets							
Government	**39**	**–**	**–**	**–**	**39**	**–**	**39**
Financial institutions	**1**	**1**	**4**	**–**	**6**	**–**	**6**
Other	**2**	**–**	**–**	**1**	**3**	**1**	**4**
Loan assets held at amortised cost							
Other	**1,001**	**319**	**138**	**768**	**2,226**	**483**	**2,709**
Trading portfolio assets							
Other	**–**	**–**	**–**	**21**	**21**	**–**	**21**
Other financial assets at fair value through profit or loss							
Other	**–**	**2**	**1**	**–**	**3**	**2**	**5**
Total	**1,043**	**322**	**143**	**790**	**2,298**	**486**	**2,784**
							Bank 2015
Debt investment securities available for sale							
Other	–	–	–	122	122	–	122
Other financial assets							
Financial institutions	5	–	–	–	5	–	5
Other	4	–	–	–	4	12	16
Loan assets held at amortised cost							
Other	292	106	38	775	1,211	748	1,959
Other financial assets at fair value through profit or loss							
Other	11	1	–	–	12	2	14
Total	312	107	38	897	1,354	762	2,116

Repossessed collateral

In the event of customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. As at 31 March 2016, the Consolidated Entity had taken possession of fixed assets and property assets with a carrying value of $10 million (2015: $79 million). These assets are in the process of being sold.

Collateral and credit enhancements held

Receivables from financial institutions

Cash collateral on securities borrowed and reverse repurchase agreements balance is included in receivables from financial institutions.

Securities borrowed and reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

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Loan assets held at amortised cost

Residential mortgage loans

Residential mortgages are secured by fixed charges over a borrower's property. Further, Macquarie obtains Lender's Mortgage Insurance (LMI) to cover a portion of the mortgage portfolio to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. The majority of the Americas portfolio consists of Canadian mortgages. Included in the mortgage loan balance is $18,087 million (2015: $17,207 million) which have been securitised by consolidated SPEs.

The Bank's residential mortgages, all originated in Australia, are secured by fixed charges over a borrower's property and LMI as disclosed above.

The tables below provide information on Loan to Value Ratios (LVRs) determined using current loan balances and the valuation at the time the mortgage was financed.

	2016			2015		
	Australia $m	**Americas $m**	**EMEA $m**	Australia $m	Americas $m	EMEA $m
Fully collateralised						**Consolidated**
Loan to value ratio						
Less than 25%	**922**	**15**	**14**	937	36	–
25% to 50%	**4,078**	**72**	**103**	3,261	226	–
51% to 70%	**7,649**	**306**	**375**	6,149	803	720
71% to 80%	**10,015**	**497**	**219**	8,361	1,188	–
81% to 90%	**5,060**	**541**	**49**	4,545	1,082	–
91% to 100%	**1,305**	**99**	**30**	1,626	467	–
Partly collateralised	**15**	**–**	**–**	15	2	–
Total mortgages	**29,044**	**1,530**	**790**	24,894	3,804	720
Fully collateralised						**Bank**
Loan to value ratio						
Less than 25%	**824**	**–**	**3**	776	–	–
25% to 50%	**3,807**	**–**	**51**	2,782	–	–
51% to 70%	**7,226**	**–**	**243**	5,387	–	137
71% to 80%	**9,697**	**–**	**167**	7,720	–	–
81% to 90%	**4,867**	**–**	**18**	4,187	–	–
91% to 100%	**1,245**	**–**	**7**	1,550	–	–
Partly collateralised	**11**	**–**	**–**	9	–	–
Total mortgages	**27,677**	**–**	**489**	22,411	–	137

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Business Banking provides residential and commercial mortgages to clients in Australia, which are usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property.

	2016 $m	2015 $m
Fully collateralised		
Loan to value ratio		
Less than 50%	**158**	166
51% to 70%	**762**	749
71% to 80%	**1,076**	857
81% to 90%	**187**	213
91% to 100%	**43**	58
Partly collateralised by real estate	**15**	21
Total mortgages	**2,241**	2,064

Note 37.1

Credit risk continued

Investment and insurance premium lending

Macquarie lends to clients for investment and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the underlying investment as collateral. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. For the Consolidated Entity, of the investment and insurance premium lending portfolio of $1,006 million (2015: $1,650 million), $990 million (2015: $1,626 million) is fully collateralised. For the Bank, of the investment and insurance premium lending portfolio of $432 million (2015: $508 million), $206 million (2015: $271 million) is fully collateralised.

Lease and retail financing

Macquarie leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying fixed assets are held by Macquarie as collateral. For the Consolidated Entity, of the lease and retail finance portfolio of $19,273 million (2015: $11,269 million), the credit exposure after considering the depreciated value of collateral is $8,817 million (2015: $5,394 million). For the Bank, of the lease and retail finance portfolio of $8,250 million (2015: $1,116 million), the credit exposure after considering the depreciated value of collateral is $4,076 million (2015: $878 million).

Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. For the Consolidated Entity, of the term lending of $17,050 million (2015: $17,940 million), the credit exposure after the estimated value of collateral and credit enhancements is $4,348 million (2015: $4,500 million). For the Bank, of the term lending of $12,834 million (2015: $15,259 million), the credit exposure after the estimated value of collateral and credit enhancements is $3,300 million (2015: $2,016 million).

Additional collateral

Macquarie excludes other types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, as a credit risk mitigant, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

Other financial assets at fair value through profit or loss

Included in Other financial assets at fair value through profit or loss is financing provided to clients for investing, which had a carrying value at balance sheet date in the Consolidated Entity of $169 million (2015: $268 million) and in the Bank of $148 million (2015: $262 million). This amount is secured by the underlying securities investments or cash deposits of the investors.

Derivative financial instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over The Counter (OTC) derivatives. Certain of the bank's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties.

Exchange traded and OTC-cleared derivative contracts have reduced credit risk as Macquarie's counterparty is a clearing house that is responsible for risk managing their members to ensure the clearing house has adequate resources to fulfill its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values as at 31 March 2016 of $1,792 million (2015: $4,618 million).

The Bank held exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2016 of $1,517 million (2015: $4,149 million).

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Note 37.1
Credit risk continued

For OTC derivative contracts, the Consolidated Entity and Bank often have master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Bank also often executes a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2016, the Consolidated Entity held OTC contracts with a negative replacement value of $16,170 million (2015: $15,502 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of $8,814 million (2015: $8,702 million) and margins held (excluding the impact of over-collateralisation) of $2,430 million (2015: $1,728 million). In addition, the Consolidated Entity has placed collateral of $1,571 million (2015: $2,309 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts.

As at 31 March 2016, the Bank held OTC contracts with a positive replacement value of $13,620 million (2015: $13,666 million). The credit risk of these contacts is reduced due to master netting agreements covering negative OTC contracts of $7,460 million (2015: $7,666 million) and margins held (excluding the impact of over-collateralisation) of $2,057 million (2015: $1,522 million).

Debt investments securities available for sale

Included in this balance are holdings of $481 million (2015: $225 million) secured by specified Australian assets under covered bonds.

Other assets

In the Consolidated Entity, brokerage receivables of $2,186 million (2015: $2,483 million), and in the Bank of $2,059 million (2015: $2,333 million), are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). The Consolidated Entity and the Bank hold the underlying equity security or cash until settled, which is usually three days after trade.

Credit commitments and contingent liabilities

In the Consolidated Entity, of the Undrawn facilities and lending commitments of $4,806 million (2015: $4,306 million), $2,811 million (2015: $2,069 million) are fully secured by underlying specific assets. In the Bank, of $4,046 million (2015: $3,753 million), $1,871 million (2015: $1,801 million) are fully secured.

Note 37.2

Liquidity risk

Governance and oversight

The Consolidated Entity's liquidity risk management framework ensures that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the ALCO and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, the CFO, CRO, the Group Treasurer, Head of Balance Sheet Management and Business Group Heads.

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

Liquidity policy and risk appetite

The *MBL Liquidity Policy* outlines the liquidity requirements for the Banking Group.

MBL's liquidity risk appetite is set so that MBL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited reduction in franchise businesses.

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

Liquidity Contingency Plan

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

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives responsible for managing a crisis, the information required to effectively manage a crisis, a communications strategy, a high level checklist of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders.

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

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

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

Funding Strategy

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

Scenario analysis

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

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

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

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets in the Consolidated Entity to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. MBL's minimum level of cash and liquid assets is calculated with reference to internal scenario projections and minimum regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario and composition constraints are applied to ensure appropriate diversity and quality of the assets in the portfolio. Further, the cash and liquid asset portfolio is denominated and held in both Australian Dollars and a range of other currencies to ensure Macquarie's liquidity requirements are broadly matched by currency.

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Note 37.2
Liquidity risk continued

Funds transfer pricing

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

Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Note 37.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
					Consolidated 2016	
Trading portfolio liabilities	–	4,794	–	–	–	4,794
Derivative financial instruments (trading)	–	13,746	–	–	–	13,746
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	993	932	4,038	1,167	7,130
Contractual amounts receivable	–	(863)	(667)	(3,137)	(955)	(5,622)
Deposits	43,203	4,897	3,553	585	77	52,315
Other financial liabilities(1)	–	4,647	–	–	–	4,647
Payables to financial institutions(2)	7,748	3,495	287	9,148	424	21,102
Debt issued at amortised cost(3)	2,145	10,277	8,029	25,994	18,552	64,997
Other financial liabilities at fair value through profit or loss	–	43	99	164	2,461	2,767
Due to related body corporate entities	1,700	5,855	–	–	–	7,555
Loan Capital(4)	–	144	212	2,232	2,478	5,066
Total undiscounted cash flows	54,796	48,028	12,445	39,024	24,204	178,497
Contingent liabilities	–	1,231	–	–	–	1,231
Commitments	2	1,155	354	3,459	597	5,567
Total undiscounted contingent liabilities and commitments(5)	2	2,386	354	3,459	597	6,798

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(2) On 4 May 2016, Macquarie exercised its right to repay $3,000 million payables to financial institutions that was contractually due to mature more than 12 months after balance date, on 1 May 2017.

(3) Included in this balance is $22,642 million (2015: $25,861 million) payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in this maturity analysis.

(4) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 26 – Loan Capital.

(5) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

Notes to the financial statements
for the financial year ended 31 March 2016
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Note 37.2
Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
					Consolidated 2015	
Trading portfolio liabilities	–	5,045	–	–	–	5,045
Derivative financial instruments (trading)	–	17,403	–	–	–	17,403
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	1,804	1,900	12,286	2,423	18,413
Contractual amounts receivable	–	(1,734)	(1,809)	(11,744)	(2,186)	(17,473)
Deposits	39,098	4,466	3,240	606	21	47,431
Other financial liabilities[(1)]	–	6,983	–	–	–	6,983
Payables to financial institutions	8,214	5,163	573	679	511	15,140
Debt issued at amortised cost[(2)]	3	10,066	11,255	24,762	18,210	64,296
Other financial liabilities at fair value through profit or loss	–	50	64	156	1,175	1,445
Due to related body corporate entities	5,041	2,981	–	–	501	8,523
Loan Capital[(3)]	–	108	179	1,443	2,270	4,000
Total undiscounted cash flows	52,356	52,335	15,402	28,188	22,925	171,206
Contingent liabilities	–	1,034	–	–	–	1,034
Commitments	26	2,937	5,214	825	9	9,011
Total undiscounted contingent liabilities and commitments[(4)]	26	3,971	5,214	825	9	10,045

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Included in this balance is $24,861 million payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in this maturity analysis.
(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 26 – Loan Capital.
(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

Note 37.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Bank 2016
Trading portfolio liabilities	–	4,824	–	–	–	4,824
Derivative financial instruments (trading)	–	13,158	–	–	–	13,158
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	412	115	1,019	891	2,437
Contractual amounts receivable	–	(385)	(77)	(754)	(731)	(1,947)
Deposits	42,011	4,889	3,550	566	21	51,037
Other financial liabilities[(1)]	–	3,081	–	–	–	3,081
Payables to financial institutions[(2)]	8,752	2,283	162	6,479	243	17,919
Debt issued at amortised cost	2,145	9,555	5,351	20,325	4,976	42,352
Other financial liabilities at fair value through profit or loss	–	1,827	82	151	2,461	4,521
Due to subsidiaries	7,190	163	208	471	7,280	15,312
Due to related body corporate entities	1,700	4,210	–	–	–	5,910
Loan Capital[(3)]	–	144	212	2,232	2,478	5,066
Total undiscounted cash flows	61,798	44,161	9,603	30,489	17,619	163,670
Contingent liabilities	–	1,638	–	–	–	1,638
Commitments	2	1,102	143	1,829	447	3,523
Total undiscounted contingent liabilities and commitments[(4)]	2	2,740	143	1,829	447	5,161

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) On 4 April 2016, Macquarie exercised its right to repay $3,000 million payables to financial institutions that was contractually due to mature more than 12 months after balance date, on 19 April 2017.
(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 26 – Loan Capital.
(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

Notes to the financial statements
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Note 37.2
Liquidity risk continued
Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Bank 2015
Trading portfolio liabilities	–	4,803	–	–	–	4,803
Derivative financial instruments (trading)	–	16,210	–	–	–	16,210
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	336	588	5,135	2,396	8,455
Contractual amounts receivable	–	(302)	(642)	(4,893)	(2,169)	(8,006)
Deposits	38,131	4,461	3,240	601	20	46,453
Other financial liabilities(1)	–	4,593	–	–	–	4,593
Payables to financial institutions	8,198	5,514	486	283	305	14,786
Debt issued at amortised cost	1	9,269	5,766	18,399	3,218	36,653
Other financial liabilities at fair value through profit or loss	1	1,140	81	105	1,175	2,502
Due to subsidiaries	7,267	992	412	557	6,382	15,610
Due to related body corporate entities	3,585	3,820	–	–	501	7,906
Loan Capital(2)	–	108	179	1,443	2,270	4,000
Total undiscounted cash flows	57,183	50,944	10,110	21,630	14,098	153,965
Contingent liabilities	–	2,167	–	–	–	2,167
Commitments	27	2,387	5,161	825	–	8,400
Total undiscounted contingent liabilities and commitments(3)	27	4,554	5,161	825	–	10,567

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 26 – Loan Capital.
(3) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

Note 37.3

Market risk

Traded market risk

Market risk is the exposure to adverse changes in the value of the Consolidated Entity's trading portfolios from changes in market prices or volatility. The Consolidated Entity is exposed to the following risks in each of the major markets in which it trades:

- **foreign exchange and bullion:** changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices
- **interest rates and debt securities:** changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins
- **equities:** changes in the price and volatility of individual equities, equity baskets and equity indices
- **commodities and energy:** changes in the price and volatility of base metals, agricultural commodities and energy products.

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

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions, and
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

Value-at-Risk figures (1 day, 99% confidence level)

The tables below show the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity and Bank operates. The VaR shown in the tables are based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2016			2015		
	Average $m	**Maximum $m**	**Minimum $m**	Average $m	Maximum $m	Minimum $m
						Consolidated
Equities	**10.88**	**16.54**	**5.89**	6.36	13.42	3.34
Interest rates	**5.46**	**8.91**	**3.92**	7.87	13.98	4.81
Foreign exchange and bullion	**2.16**	**5.90**	**1.12**	2.47	4.46	0.52
Commodities	**11.71**	**18.48**	**6.74**	9.76	13.79	6.62
Aggregate	**16.32**	**22.09**	**9.51**	13.63	23.35	7.68

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 37.3
Market risk continued

	2016			2015		
	Average $m	**Maximum $m**	**Minimum $m**	Average $m	Maximum $m	Minimum $m
						Bank
Equities	**9.61**	**16.10**	**4.37**	6.09	12.74	3.22
Interest rates	**5.19**	**8.65**	**3.76**	7.50	13.68	4.57
Foreign exchange and bullion	**2.85**	**7.20**	**1.30**	4.04	11.33	0.84
Commodities	**10.77**	**16.85**	**7.15**	10.47	14.98	6.21
Aggregate	**15.61**	**22.99**	**9.06**	15.54	23.48	10.13

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99% level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Interest rate risk

The Consolidated Entity and the Bank also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate small levels of interest rate risk. Wherever possible, these interest rate risks are transferred into the trading books of CFM and Group Treasury Division which are managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book due to factors outside the interest rate market or due to timing differences in accumulating exposures large enough to hedge. These residual risks have independent limits that are monitored by RMG and regularly reported to Senior Management.

Foreign currency risk

The Consolidated Entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of its investments in foreign operations. Movements in foreign currency exchange rates will result in gain or loss in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

In order to manage this risk, the Consolidated Entity has a policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian Accounting Standards. They offset movements on the net assets within foreign operations and are transferred to the foreign currency translation reserve.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading divisions is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below. Other than this there is no material non-trading foreign exchange risk in the profit and loss.

The hedging policy of the group is designed to reduce the sensitivity of the group's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

Note 37.3

Market risk continued

Foreign currency risk continued

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are United States dollars, Great British pounds, Canadian dollars and Euro.

	2016		2015	
	Movement in exchange rates %	**Sensitivity of equity after tax $m**	Movement in exchange rates %	Sensitivity of equity after tax $m
				Consolidated
United States dollars	**+10**	**(367)**	+10	(352)
Great British pounds	**+10**	**(84)**	+10	(70)
Canadian dollars	**+10**	**(23)**	+10	(24)
Euro	**+10**	**(35)**	+10	(33)
Total		**(509)**		(479)
United States dollars	**–10**	**448**	–10	430
Great British pounds	**–10**	**102**	–10	85
Canadian dollars	**–10**	**28**	–10	29
Euro	**–10**	**43**	–10	41
Total		**621**		585

Notes to the financial statements
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continued

Note 37.3
Market risk continued

Equity price risk

The tables below indicates the equity markets to which the Consolidated Entity and the Bank had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

	2016		2015	
Geographic region	Movement in equity price %	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of equity after tax $m
Listed				**Consolidated**
Australia	+10	6	+10	5
Americas	+10	1	+10	1
Unlisted	+10	23	+10	18
Listed				
Australia	–10	(6)	–10	(5)
Americas	–10	(1)	–10	(1)
Unlisted	–10	(23)	–10	(18)
Listed				**Bank**
Australia	+10	6	+10	5
Americas	+10	–	+10	1
Europe, Middle East and Africa	+10	–	+10	–
Unlisted	+10	12	+10	8
Listed				
Australia	–10	(6)	–10	(5)
Americas	–10	–	–10	(1)
Europe, Middle East and Africa	–10	–	–10	–
Unlisted	–10	(12)	–10	(8)

Note 38

Fair value of financial assets and liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The Consolidated Entity and the Bank uses the portfolio exemption in AASB 13 *Fair Value Measurement* to measure the fair value of certain groups of financial assets and financial liabilities. These are measured using the price that would be received to sell a net long position, or transfer a net short position, for a particular risk exposure.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

– trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
– investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (for example listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gain and loss, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of
– fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
– for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
– for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
– for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (for example for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as volatility and correlation.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 38
Fair value of financial assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements included within receivables from financial institutions and payables to financial institutions, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of deposits with no fixed maturity is approximately their carrying amount as they are short-term in nature or are payable on demand
- the fair value of debt issued and loan capital issued at amortised cost is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments, and
- in the financial statements of the Bank, the fair value of balances due from/to subsidiaries is approximated by their carrying amount as the balances are generally receivable/payable on demand.

Note 38

Fair value of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Bank:

	2016 Carrying value $m	**2016 Fair value $m**	2015 Carrying value $m	2015 Fair value $m
Assets				**Consolidated**
Receivables from financial institutions	**30,956**	**30,956**	25,981	25,981
Other financial assets[(1)]	**4,300**	**4,300**	5,913	5,913
Loan assets held at amortised cost	**78,913**	**79,212**	71,206	71,250
Due from related body corporate entities	**1,610**	**1,610**	1,163	1,163
Assets of disposals group classified as held for sale	**–**	**–**	242	242
Total assets	**115,779**	**116,078**	104,505	104,549
Liabilities				
Deposits	**52,228**	**52,250**	47,333	47,306
Other financial liabilities[(2)]	**3,876**	**3,876**	5,982	5,982
Payables to financial institutions	**20,555**	**20,540**	14,874	14,954
Due to related body corporate entities	**7,555**	**7,555**	7,700	7,700
Debt issued at amortised cost	**55,142**	**54,766**	53,033	53,284
Loan capital	**4,078**	**4,046**	3,240	3,527
Liabilities of disposals group classified as held for sale	**–**	**–**	444	444
Total liabilities	**143,434**	**143,033**	132,606	133,197
Assets				**Bank**
Receivables from financial institutions	**28,295**	**28,295**	24,134	24,134
Other financial assets[(3)]	**3,592**	**3,592**	4,603	4,603
Loan assets held at amortised cost	**56,953**	**57,177**	47,711	47,707
Due from related body corporate entities	**374**	**374**	986	986
Due from subsidiaries	**30,348**	**30,348**	33,102	33,102
Total assets	**119,562**	**119,786**	110,536	110,532
Liabilities				
Deposits	**50,952**	**50,974**	46,356	46,329
Other financial liabilities[(4)]	**3,081**	**3,081**	4,593	4,593
Payables to financial institutions	**17,468**	**17,453**	14,655	14,679
Due to related body corporate entities	**5,910**	**5,910**	7,084	7,084
Due to subsidiaries	**15,312**	**15,312**	15,531	15,531
Debt issued at amortised cost	**40,242**	**39,911**	35,149	35,412
Loan capital	**4,078**	**4,046**	3,240	3,527
Liabilities of disposals group classified as held for sale	**–**	**–**	125	125
Total liabilities	**137,043**	**136,687**	126,733	127,280

(1) This balance excludes other non-financial assets of $2,618 million (2015: $1,905 million) which are included in Note 9 – Other assets.
(2) This balance excludes other non-financial liabilities of $3,245 million (2015: $3,280 million) which are included in Note 21 – Other liabilities.
(3) This balance excludes other non-financial assets of $746 million (2015: $185 million) which are included in Note 9 – Other assets.
(4) This balance excludes other non-financial liabilities of $1,537 million (2015: $1,311 million) which are included in Note 21 – Other liabilities.

Notes to the financial statements
for the financial year ended 31 March 2016
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Note 38

Fair value of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**Consolidated 2016**
Receivables from financial institutions	**7,591**	**23,365**	**–**	**30,956**
Other financial assets	**–**	**4,300**	**–**	**4,300**
Loan assets held at amortised cost	**8,382**	**7,897**	**62,933**	**79,212**
Due from related body corporate entities	**–**	**1,610**	**–**	**1,610**
Total assets	**15,973**	**37,172**	**62,933**	**116,078**
Liabilities				
Deposits	**43,366**	**8,884**	**–**	**52,250**
Other financial liabilities	**–**	**3,876**	**–**	**3,876**
Payables to financial institutions	**1,572**	**18,968**	**–**	**20,540**
Due to related body corporate entities	**–**	**7,555**	**–**	**7,555**
Debt issued at amortised cost	**–**	**47,795**	**6,971**	**54,766**
Loan capital	**734**	**3,312**	**–**	**4,046**
Total liabilities	**45,672**	**90,390**	**6,971**	**143,033**
Assets				Consolidated 2015
Receivables from financial institutions	8,668	17,313	–	25,981
Other financial assets	–	5,913	–	5,913
Loan assets held at amortised cost	9,019	10,327	51,904	71,250
Due from related body corporate entities	–	1,163	–	1,163
Assets of disposals group classified as held for sale	242	–	–	242
Total assets	17,929	34,716	51,904	104,549
Liabilities				
Deposits	37,370	9,936	–	47,306
Other financial liabilities	–	5,982	–	5,982
Payables to financial institutions	1,859	13,095	–	14,954
Due to related body corporate entities	–	7,700	–	7,700
Debt issued at amortised cost	1,599	44,523	7,162	53,284
Loan capital	801	2,726	–	3,527
Liabilities of disposals group classified as held for sale	–	444	–	444
Total liabilities	41,629	84,406	7,162	133,197

Note 38

Fair value of financial assets and liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**Bank 2016**
Receivables from financial institutions	**5,172**	**23,123**	**–**	**28,295**
Other financial assets[1]	**–**	**3,592**	**–**	**3,592**
Loan assets held at amortised cost	**5,340**	**4,435**	**47,402**	**57,177**
Due from related body corporate entities	**–**	**374**	**–**	**374**
Due from subsidiaries	**–**	**30,348**	**–**	**30,348**
Total assets	**10,512**	**61,872**	**47,402**	**119,786**
Liabilities				
Deposits	**42,117**	**8,857**	**–**	**50,974**
Other financial liabilities[2]	**–**	**3,081**	**–**	**3,081**
Payables to financial institutions	**1,568**	**15,885**	**–**	**17,453**
Due to related body corporate entities	**–**	**5,910**	**–**	**5,910**
Due to subsidiaries	**–**	**15,312**	**–**	**15,312**
Debt issued at amortised cost	**–**	**39,911**	**–**	**39,911**
Loan capital	**734**	**3,312**	**–**	**4,046**
Total liabilities	**44,419**	**92,268**	**–**	**136,687**
Assets				Bank 2015
Receivables from financial institutions	6,900	17,234	–	24,134
Other financial assets[1]	–	4,603	–	4,603
Loan assets held at amortised cost	6,440	5,485	35,782	47,707
Due from related body corporate entities	–	986	–	986
Due from subsidiaries	–	33,102	–	33,102
Total assets	13,340	61,410	35,782	110,532
Liabilities				
Deposits	36,405	9,924	–	46,329
Other financial liabilities[2]	–	4,593	–	4,593
Payables to financial institutions	1,591	13,088	–	14,679
Due to related body corporate entities	–	7,084	–	7,084
Due to subsidiaries	–	15,531	–	15,531
Debt issued at amortised cost	–	35,412	–	35,412
Loan capital	801	2,726	–	3,527
Liabilities of disposals group classified as held for sale	–	125	–	125
Total liabilities	38,797	88,483	–	127,280

(1) This balance excludes other non-financial assets of $746 million (2015: $185 million) which are included in Note 9 – Other assets.
(2) This balance excludes other non-financial liabilities of $1,537 million (2015: $1,311 million) which are included in Note 21 – Other liabilities.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 38

Fair value of financial assets and liabilities continued

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**Consolidated 2016**
Trading portfolio assets	**15,037**	**7,266**	**759**	**23,062**
Derivative assets	**940**	**16,620**	**402**	**17,962**
Investment securities available for sale	**6,710**	**1,694**	**604**	**9,008**
Other financial assets at fair value through profit or loss	**–**	**1,039**	**18**	**1,057**
Other financial assets[1]	**71**	**772**	**79**	**922**
Total assets	**22,758**	**27,391**	**1,862**	**52,011**
Liabilities				
Trading portfolio liabilities	**2,750**	**2,044**	**–**	**4,794**
Derivative liabilities	**1,168**	**13,344**	**201**	**14,713**
Other financial liabilities at fair value through profit or loss	**–**	**2,253**	**54**	**2,307**
Other financial liabilities[2]	**–**	**764**	**7**	**771**
Total liabilities	**3,918**	**18,405**	**262**	**22,585**
Assets				Consolidated 2015
Trading portfolio assets	19,529	9,853	657	30,039
Derivative assets	947	18,678	327	19,952
Investment securities available for sale	3,430	2,230	685	6,345
Other financial assets at fair value through profit or loss	61	1,105	157	1,323
Assets of disposals group classified as held for sale	57	31	68	156
Other financial assets[1]	234	827	–	1,061
Total assets	24,258	32,724	1,894	58,876
Liabilities				
Trading portfolio liabilities	2,458	2,587	–	5,045
Derivative liabilities	1,154	16,707	239	18,100
Other financial liabilities at fair value through profit or loss	–	1,215	22	1,237
Other financial liabilities[2]	232	772	–	1,004
Total liabilities	3,844	21,281	261	25,386

(1) This balance includes $850 million (2015: $1,061 million) of life insurance contracts and other unitholder investment assets and $72m (2015: $nil) of other fair value financial assets which are included in Note 9 – Other assets.

(2) This balance includes $771 million (2015: $1,004 million) of life insurance contracts and other unitholder investment liabilities which are included in Note 21 – Other liabilities.

Note 38

Fair value of financial assets and liabilities continued

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**Bank 2016**
Trading portfolio assets	**12,262**	**5,604**	**290**	**18,156**
Derivative assets	**641**	**14,092**	**404**	**15,137**
Investment securities available for sale	**6,704**	**1,494**	**296**	**8,494**
Other financial assets at fair value through profit or loss	**–**	**990**	**15**	**1,005**
Other financial assets	**–**	**–**	**72**	**72**
Total assets	**19,607**	**22,180**	**1,077**	**42,864**
Liabilities				
Trading portfolio liabilities	**2,738**	**2,086**	**–**	**4,824**
Derivative liabilities	**605**	**12,703**	**166**	**13,474**
Other financial liabilities at fair value through profit or loss	**–**	**4,008**	**54**	**4,062**
Total liabilities	**3,343**	**18,797**	**220**	**22,360**
Assets				Bank 2015
Trading portfolio assets	15,023	7,471	423	22,917
Derivative assets	774	16,171	492	17,437
Investment securities available for sale	3,427	1,660	319	5,406
Other financial assets at fair value through profit or loss	61	1,061	153	1,275
Assets of disposals group classified as held for sale	–	50	28	78
Total assets	19,285	26,413	1,415	47,113
Liabilities				
Trading portfolio liabilities	2,458	2,345	–	4,803
Derivative liabilities	1,082	15,519	135	16,736
Other financial liabilities at fair value through profit or loss	–	2,275	22	2,297
Total liabilities	3,540	20,139	157	23,836

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 38

Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and for the Bank for the financial years ended 31 March 2016 and 31 March 2015:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at 1st April 2014	702	407
Purchases	569	134
Sales	(537)	(145)
Issues	–	–
Settlements	–	–
Transfers into Level 3	65	339
Transfers out of Level 3	(152)	(12)
Reclassifications	–	(17)
Fair value gains recognised in the income statement(1)	10	18
Fair value (losses)/gains recognised in other comprehensive income(1)	–	(39)
Balance at 31 March 2015	657	685
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	10	18
Balance at 1st April 2015	**657**	**685**
Purchases	**351**	**19**
Sales	**(172)**	**(82)**
Issues	**–**	**–**
Settlements	**–**	**(36)**
Transfers into Level 3	**78**	**76**
Transfers out of Level 3	**(56)**	**(149)**
Reclassifications	**–**	**23**
Fair value (losses)/gains recognised in the income statement(1)	**(99)**	**6**
Fair value gains recognised in other comprehensive income(1)	**–**	**62**
Balance at 31 March 2016	**759**	**604**
Fair value (losses)/gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	**(99)**	**6**

(1) The Consolidated Entity employs various hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified as Levels 1 and/or 2. The realised and unrealised gain and loss for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gain and loss arising on economic hedging instruments classified in Level 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $402 million (2015: $327 million) and derivative liabilities are $201 million (2015: $239 million).

Assets disposals group classified as held for sale $m	Other financial assets at fair value through profit or loss $m	Other financial assets $m	Other financial liabilities at fair value through profit or loss $m	Other financial liabilities $m	Derivative financial instruments (net replacement values)(2) $m	Total $m
						Consolidated 2015
–	153	–	(32)	–	(6)	1,224
27	–	–	–	–	108	838
(6)	(5)	–	–	–	(8)	(701)
–	–	–	–	–	(10)	(10)
–	–	–	11	–	2	13
–	–	–	–	–	(22)	382
–	–	–	–	–	29	(135)
31	(14)	–	–	–	–	–
9	23	–	(1)	–	(5)	54
7	–	–	–	–	–	(32)
68	157	–	(22)	–	88	1,633
9	24	–	(1)	–	(43)	17
						Consolidated 2016
68	**157**	**–**	**(22)**	**–**	**88**	**1,633**
–	**–**	**–**	**(45)**	**–**	**116**	**441**
–	**(5)**	**–**	**8**	**–**	**(160)**	**(411)**
–	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**(36)**
–	**7**	**7**	**–**	**(7)**	**11**	**172**
–	**(108)**	**–**	**–**	**–**	**29**	**(284)**
(56)	**(32)**	**65**	**–**	**–**	**–**	**–**
(12)	**(1)**	**7**	**5**	**–**	**117**	**23**
–	**–**	**–**	**–**	**–**	**–**	**62**
–	**18**	**79**	**(54)**	**(7)**	**201**	**1,600**
–	**–**	**7**	**5**	**–**	**124**	**43**

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 38
Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at 1st April 2014	673	219
Purchases	334	99
Sales	(507)	(84)
Issues	–	–
Settlements	–	10
Transfers into Level 3	65	119
Transfers out of Level 3	(152)	(12)
Reclassifications	–	(3)
Fair value gains/(losses) recognised in the income statement(1)	10	(3)
Fair value (losses)/gains recognised in other comprehensive income(1)	–	(26)
Balance at 31 March 2015	423	319
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	10	(3)
Balance at 1st April 2015	**423**	**319**
Purchases	**115**	**19**
Sales	**(155)**	**(40)**
Issues	**–**	**–**
Settlements	**–**	**–**
Transfers into Level 3	**36**	**77**
Transfers out of Level 3	**(56)**	**(139)**
Reclassifications	**–**	**11**
Fair value (losses)/gains recognised in the income statement(1)	**(73)**	**–**
Fair value gains recognised in other comprehensive income(1)	**–**	**49**
Balance at 31 March 2016	**290**	**296**
Fair value (losses)/gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	**(73)**	**–**

(1) The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gain and loss for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gain and loss arising on economic hedging instruments classified in Levels 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $404 million (2015: $492 million) and derivative liabilities are $166 million (2015: $135 million).

Assets of disposals group classified as held for sale $m	Other financial assets at fair value through profit or loss $m	Other financial assets $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)(2) $m	Total $m
					Bank 2015
–	136	–	(32)	225	1,221
26	–	–	–	100	559
(5)	(3)	–	–	(11)	(610)
–	–	–	–	(10)	(10)
(2)	–	–	11	2	21
–	–	–	–	14	198
–	–	–	–	40	(124)
5	(2)	–	–	–	–
3	22	–	(1)	(3)	28
1	–	–	–	–	(25)
28	153	–	(22)	357	1,258
3	23	–	(1)	(41)	(9)
					Bank 2016
28	**153**	**–**	**(22)**	**357**	**1,258**
–	**–**	**–**	**(45)**	**73**	**162**
–	**(3)**	**–**	**8**	**(351)**	**(541)**
–	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**
–	**7**	**–**	**–**	**9**	**129**
–	**(89)**	**–**	**–**	**4**	**(280)**
(25)	**(51)**	**65**	**–**	**–**	**–**
(3)	**(2)**	**7**	**5**	**146**	**80**
–	**–**	**–**	**–**	**–**	**49**
–	**15**	**72**	**(54)**	**238**	**857**
–	**–**	**7**	**5**	**146**	**85**

Notes to the financial statements
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continued

Note 38

Fair value of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity and the Bank did not have significant transfers between Level 1 and Level 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity and the Bank recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Consolidated 2016 $m	Consolidated 2015 $m	**Bank 2016 $m**	Bank 2015 $m
Balance at the beginning of the financial year	**53**	8	**1**	–
Deferral on new transactions	**105**	43	**105**	2
Amounts recognised in the income statement during the financial year	**(47)**	2	**(23)**	(1)
Balance at the end of the financial year	**111**	53	**83**	1

Note 38

Fair value of financial assets and liabilities continued

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
Product type				**Consolidated 2016**
Equity and equity linked products	**2**	**10**	**(2)**	**(12)**
Other products	**199**	**26**	**(149)**	**(18)**
Total	**201**	**36**	**(151)**	**(30)**
Product type				Consolidated 2015
Equity and equity linked products	10	6	(10)	(2)
Other products	80	17	(64)	(10)
Total	90	23	(74)	(12)
Product type				**Bank 2016**
Equity and equity linked products	**11**	**9**	**(11)**	**(11)**
Other products	**96**	**3**	**(83)**	**(3)**
Total	**107**	**12**	**(94)**	**(14)**
Product type				Bank 2015
Equity and equity linked products	8	2	(8)	(2)
Other products	30	3	(31)	(3)
Total	38	5	(39)	(5)

Notes to the financial statements
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Note 38
Fair value of financial assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations and the valuation techniques used to measure fair value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Range of inputs Maximum value
					As at 31 March 2016	
Equity and equity linked products	**92**	**20**	Discounted cash flows	Discount rate	**10.0%**	**10.0%**
			Pricing model	Volatility	**–**	**–**
				Earnings multiple	**11.6x**	**11.6x**
			Market comparability	Price in %	**(1.2%)**	**0.1%**
Other products	**1,770**	**242**	Pricing model	Volatility	**(51.0%)**	**200.0%**
				Correlation	**(0.6)**	**1.0**
			Discounted cash flows	Discount rate	**7.0%**	**20.0%**
			Market comparability	Price in %	**(29.4%)**	**106.8%**
Total	**1,862**	**262**				
					As at 31 March 2015	
Equity and equity linked products	267	22	Discounted cash flows	Discount rate	–	–
			Pricing model	Volatility	17.0%	192.0%
			Market comparability	Price in %	(2.0)%	0.1%
Other products	1,627	239	Pricing model	Volatility	11.3%	150.0%
				Correlation	–	–
			Discounted cash flows	Discount rate	6.0%	22.0%
			Market comparability	Price in %	–	103.0%
Total	1,894	261				

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Inputs for unlisted equity securities (discount rate, earnings multiple)

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiple, discount rate and forecast earnings of the investee companies.

Note 39

Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the balance sheet when they meet the criteria described in Note 1(xxiv) – Summary of significant accounting policies. The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not qualify for offsetting in the balance sheet. The tables exclude amounts not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the entity, refer to Note 37.1 – Credit risk for information on credit risk management.

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amount $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Consolidated 2016
Receivables from financial institutions[1]	23,261	–	23,261	(265)	(22,310)	686
Derivative assets	22,093	(7,114)	14,979	(10,606)	(2,430)	1,943
Other assets	755	(349)	406	(28)	–	378
Loan assets held at amortised cost	38	(38)	–	–	–	–
Other financial assets at fair value through profit or loss	2,235	(2,059)	176	–	–	176
Due from related body corporate entities	22,843	(21,460)	1,383	–	–	1,383
Total assets	71,225	(31,020)	40,205	(10,899)	(24,740)	4,566
Derivative liabilities	(21,022)	7,114	(13,908)	10,606	1,571	(1,731)
Deposits	(314)	263	(51)	–	–	(51)
Other liabilities	(820)	349	(471)	28	–	(443)
Payables to financial institutions[2]	(7,866)	–	(7,866)	265	7,481	(120)
Other financial liabilities at fair value through profit or loss	(1,796)	1,796	–	–	–	–
Due to related body corporate entities	(26,735)	21,460	(5,275)	–	–	(5,275)
Debt issued at amortised cost	(38)	38	–	–	–	–
Total liabilities	(58,591)	31,020	(27,571)	10,899	9,052	(7,620)

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Notes to the financial statements
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continued

Note 39
Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amount $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Consolidated 2015
Receivables from financial institutions[1]	16,839	–	16,839	(283)	(16,193)	363
Derivative assets	21,250	(4,718)	16,532	(12,639)	(1,728)	2,165
Other assets	3,032	(2,228)	804	(58)	–	746
Loan assets held at amortised cost	155	(155)	–	–	–	–
Other financial assets at fair value through profit or loss	1,564	(1,400)	164	–	–	164
Due from related body corporate entities	12,249	(11,466)	783	–	–	783
Total assets	55,089	(19,967)	35,122	(12,980)	(17,921)	4,221
Derivative liabilities	(21,466)	4,725	(16,741)	12,639	1,935	(2,167)
Deposits	(336)	308	(28)	–	–	(28)
Other liabilities	(3,257)	2,281	(976)	58	–	(918)
Payables to financial institutions[2]	(9,958)	–	(9,958)	283	9,465	(210)
Other financial liabilities at fair value through profit or loss	(1,139)	1,139	–	–	–	–
Due to related body corporate entities	(17,452)	11,466	(5,986)	–	–	(5,986)
Debt issued at amortised cost	(48)	48	–	–	–	–
Total liabilities	(53,656)	19,967	(33,689)	12,980	11,400	(9,309)

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Note 39

Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amount $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Bank 2016
Receivables from financial institutions[1]	23,018	–	23,018	(263)	(22,069)	686
Derivative assets	18,699	(6,021)	12,678	(8,977)	(2,057)	1,644
Other assets	689	(349)	340	–	–	340
Other financial assets at fair value through profit or loss	439	(263)	176	–	–	176
Due from related body corporate entities	12,756	(11,962)	794	–	–	794
Due from subsidiaries	44,041	(19,961)	24,080	–	–	24,080
Total assets	99,642	(38,556)	61,086	(9,240)	(24,126)	27,720
Derivative liabilities	(17,792)	6,021	(11,771)	8,977	1,330	(1,464)
Deposits	(284)	263	(21)	–	–	(21)
Other liabilities	(739)	349	(390)	–	–	(390)
Payables to financial institutions[2]	(7,797)	–	(7,797)	263	7,414	(120)
Due to related body corporate entities	(16,952)	11,962	(4,990)	–	–	(4,990)
Due to subsidiaries	(26,320)	19,961	(6,359)	–	–	(6,359)
Total liabilities	(69,884)	38,556	(31,328)	9,240	8,744	(13,344)

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 39
Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amount $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Bank 2015
Receivables from financial institutions[1]	16,763	–	16,763	(282)	(16,120)	361
Derivative assets	18,720	(4,156)	14,564	(11,134)	(1,522)	1,908
Other assets	2,196	(1,612)	584	–	–	584
Loan assets held at amortised cost	54	(54)	–	–	–	–
Other financial assets at fair value through profit or loss	418	(254)	164	–	–	164
Due from related body corporate entities	11,889	(11,223)	666	–	–	666
Due from subsidiaries	49,151	(22,117)	27,034	–	–	27,034
Total assets	99,191	(39,416)	59,775	(11,416)	(17,642)	30,717
Derivative liabilities	(18,904)	4,156	(14,748)	11,134	1,705	(1,909)
Deposits	(254)	254	–	–	–	–
Other liabilities	(2,422)	1,666	(756)	–	–	(756)
Payables to financial institutions[2]	(9,916)	–	(9,916)	282	9,425	(209)
Due to related body corporate entities	(17,188)	11,223	(5,965)	–	–	(5,965)
Due to subsidiaries	(29,413)	22,117	(7,296)	–	–	(7,296)
Total liabilities	(78,097)	39,416	(38,681)	11,416	11,130	(16,135)

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 1(xxiv) – Summary of significant accounting policies and are limited to the gross carrying value of the financial statements. Therefore, when an asset is offset by a liability and the asset carrying value exceeds the liability carrying value, the net amount is presented in assets.

Amounts subject to enforceable netting arrangements

Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty in the event of default or other pre-determined events, such that their potential effect on the Consolidated Entity's and the Bank's financial position in that circumstance is to settle as one arrangement.

'Other recognised financial instruments' discloses other financial instruments recognised on balance sheet and 'Cash and other financial collateral' discloses amounts received or pledged in relation to the gross amounts of assets and liabilities. Both are subject to enforceable netting arrangements but are not offset due to the rights of set off applying only upon default or other predetermined events. This excludes non-financial instrument collateral.

The amounts subject to enforceable netting arrangements but not set off on the balance sheet have been limited to the net amount presented on the balance sheet so as not to include effects of over-collateralisation.

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Note 40

Transfers of financial assets

Transferred financial assets that are derecognised

The Consolidated Entity and Bank may enter into transactions in the normal course of business that transfer financial assets to other entities. When the financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. There were no material transfers of financial assets where the Consolidated Entity retained continuing involvement at reporting date.

The Bank holds some securitisation interests at 31 March 2016 in vehicles wholly containing mortgages transferred by the Bank after it acquired the securitisation interests. The interests have a carrying amount, and maximum exposure to loss, of $214 million (2015: $349 million) as at 31 March 2016 and a fair value that approximates the carrying amount. Income of $9 million (2015: $13 million) was generated from securitisation interests during the financial year and $52 million (2015: $62 million) cumulative.

Transferred financial assets that are not derecognised

When financial assets are transferred but not derecognised, this is due to retaining exposure to substantially all the risks and rewards of ownership of the transferred assets through repurchase and securities lending agreements, asset swaps or interests in securitisations.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity and Bank do not have legal rights to these assets but have full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

Interests in securitisations

Financial assets (principally mortgage loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Bank is entitled to any residual income of a securitisation vehicle, the Bank continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

Written put options

When financial assets are transferred but continue to be recognised to the extent of continuing involvement, this is due to some but not substantially all of the risks and rewards of ownership being transferred, and control of the asset being retained. Examples of such transactions include transfers involving written put options or other instruments linked to the performance of the asset and are not priced at fair value.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 40
Transfers of financial assets continued

There were no material transfers of financial assets for the Bank where the assets continue to be recognised as at 31 March 2016 and at 31 March 2015. The following table presents information for transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2016 and 31 March 2015:

	Repurchase and securities lending agreements $m	Transfers with total return/asset swaps $m	Transfer with written put option $m
			Consolidated 2016
Carrying amount of transferred assets[1]	**3,423**	**777**	**–**
Carrying amount of associated liabilities	**(3,466)**	**(753)**	**–**
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement[2]	**–**	**–**	**–**
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	**817**	**286**	**–**
Fair value of associated liabilities	**(884)**	**(286)**	**–**
Net fair value	**(67)**	**–**	**–**
			Consolidated 2015
Carrying amount of transferred assets[1]	7,062	2,867	342
Carrying amount of associated liabilities	(7,091)	(2,891)	(361)
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement[2]	–	–	361
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	948	1,883	345
Fair value of associated liabilities	(969)	(1,955)	(362)
Net fair value	(21)	(72)	(17)

(1) The transferred financial assets are presented in Note 7 – Trading portfolio assets $2,204 million (2015: $5,713 million), Note 8 – Investment securities available for sale $887 million (2015: $1,352 million) and Note 10 – Loan assets held at amortised cost $1,109 million (2015: $3,207 million) in the statements of financial position.

(2) This disclosure is required only in respect of transfers that fail derecognition under the continuing involvement model.

Note 40

Transfers of financial assets continued

The following table presents information about transfers of financial assets not derecognised by the Bank as at 31 March 2016 and 31 March 2015:

	Repurchase and securities lending agreements $m	Transfers with total return/asset swaps $m	Interests in securitisations $m
			Bank 2016
Carrying amount of transferred assets(1)	**3,423**	**492**	**24,491**
Carrying amount of associated liabilities	**(3,466)**	**(467)**	**(24,491)**
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	**817**	**–**	**24,491**
Fair value of associated liabilities	**(884)**	**–**	**(24,358)**
Net fair value	**(67)**	**–**	**133**
			Bank 2015
Carrying amount of transferred assets(1)	7,796	1,005	17,604
Carrying amount of associated liabilities	(7,730)	(951)	(17,604)
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	1,673	–	17,655
Fair value of associated liabilities	(1,608)	–	(17,596)
Net fair value	65	–	59

(1) The transferred financial assets are presented in Note 7 – Trading portfolio assets $2,204 million (2015: $5,713 million), Investment securities available for sale $887 million (2015: $1,352 million), Note 30 – Due from controlled entities $811 million (2015: $1,672 million) and Note 10 – Loan assets held at amortised cost $24,504 million (2015: $17,668 million) in the statement of financial position.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 41
Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Consolidated Entity and Bank, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

	Consolidated 2016 $'000	Consolidated 2015 $'000	**Bank 2016 $'000**	Bank 2015 $'000
PwC – Australia				
Audit and review of financial reports of the Bank or subsidiaries	**7,387**	6,556	**6,391**	6,355
Other audit-related and assurance services	**2,128**	2,828	**290**	621
Total audit and other assurance services	**9,515**	9,384	**6,681**	6,976
Advisory services	**23**	85	**–**	–
Taxation	**68**	–	**–**	–
Total non-audit services	**91**	85	**–**	–
Total remuneration paid to PwC Australia	**9,606**	9,469	**6,681**	6,976
Network firms of PwC Australia				
Audit and review of financial reports of the Bank or subsidiaries	**9,286**	5,867	**2,350**	1,679
Other audit-related and assurance services	**241**	341	**–**	–
Total audit and other assurance services	**9,527**	6,208	**2,350**	1,679
Advisory services	**130**	–	**–**	–
Taxation	**2,342**	742	**–**	–
Total non-audit services	**2,472**	742	**–**	–
Total remuneration paid to network firms of PwC Australia	**11,999**	6,950	**2,350**	1,679
Total remuneration paid to PwC (Note 2)	**21,605**	16,419	**9,031**	8,655

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Bank's *Auditor Independence Policy*. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for other audit-related and assurance services are in relation to initial public offerings and due diligence services for new funds. These fees may be recovered by the Consolidated Entity upon the successful establishment of the funds.

It is the Consolidated Entity's and the Bank's policy to seek competitive tenders for all major advisory projects.

Note 42

Acquisitions and disposals of subsidiaries and businesses

Significant entities or businesses acquired or consolidated due to acquisition of control:

There were no significant entities or businesses acquired or consolidated due to acquisition of control during the financial year.

Other entities or businesses acquired or consolidated due to acquisition of control

AWAS Aviation Capital Portfolio, Esanda Dealer Finance Portfolio, Energetics Topco Limited and Advantage Funding Management Co. Inc.

On 4 March 2015, Macquarie entered into an agreement to acquire an aircraft operating lease portfolio of commercial passenger aircrafts from AWAS Aviation Capital Limited. The portfolio comprised of a combination of assets and wholly owned entities that were acquired in stages. On the 1 July 2015 acquisition date, the first aircraft were acquired. During the year, the entire portfolio was acquired for $4,510 million with a total of 83 aircraft purchased. Due to the staged acquisition, the purchase accounting for the business combination is provisional.

On 8 October 2015, Macquarie entered into an agreement to acquire the Esanda Dealer Finance portfolio from Australia and New Zealand Banking Group Limited in two stages. The portfolio comprised retail receivables and motor vehicle dealer finance. On 2 November 2015 acquisition date, the first stage was completed with the portfolio of retail receivables being acquired for $6,634 million. At 31 March 2016, $832 million of the motor vehicle dealer finance portfolio has been acquired. The purchase accounting for the business combination is provisional.

Aggregate details of the entities or businesses acquired or consolidated due to acquisition of control are as follows:

	2016 $m	2015 $m
Fair value of net assets acquired		
Receivables from financial institutions	**37**	–
Other assets	**143**	23
Loan assets held at amortised cost	**7,875**	335
Property, plant and equipment	**4,996**	–
Deposits	**(95)**	–
Other liabilities	**(334)**	(5)
Payables to financial institutions	**(440)**	–
Deferred tax liabilities	**(75)**	–
Non-controlling interests	**(10)**	–
Total fair value of net assets acquired	**12,097**	353
Consideration		
Cash consideration	**12,073**	353
Fair value of equity interest held before the acquisition date	**24**	–
Total consideration	**12,097**	353
Net cash outflow		
Cash consideration	**(12,073)**	(353)
Less:		
Cash and cash equivalents acquired	**17**	–
Net cash outflow	**(12,056)**	(353)

The acquisition date fair value of acquired loans and trade receivables was $7,896 million with a gross contractual receivable value of $7,662 million. The best estimate of contractual cash flows not expected to be collected is $205 million.

The acquired entities have contributed $223 million of net operating income and $10 million net profit after income taxes for the year ended 31 March 2016 including acquisition and integration costs.

If the acquisitions had happened at 1 April 2015, the Consolidated Entity's net operating income would be $511 million and the net profit after taxes would be $164 million for the year ended 31 March 2016, excluding acquisition and integration costs.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 42

Acquisitions and disposals of subsidiaries and businesses continued

There were no significant entities or businesses acquired or consolidated due to acquisition of control in the 31 March 2015 comparatives. The 31 March 2015 comparatives principally relate to the following entities or businesses acquired or consolidated due to acquisition of control:

Credit Cards Portfolio, Macquarie Infrastructure Limited, Macquarie Greater China Limited, Macquarie Greater China Infrastructure Management Limited, Macquarie Greater China Infrastructure Management Advisory Limited and Japan Infrastructure Group Co. Limited.

There was no significant contribution to operating income or profit after income taxes for the acquisitions for the year ended 31 March 2015.

Note 42

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities or businesses disposed of or deconsolidated due to loss of control

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

Other entities or businesses disposed of or deconsolidated due to loss of control

Macquarie Almond Orchard business, MIM business (as described in Note 43) and Vineyard business.

Aggregate details of the entities or businesses disposed of or deconsolidated are as follows:

	2016 $m	2015 $m
Carrying value of net assets disposed of or deconsolidated		
Receivables from financial institutions	**106**	22
Other assets	**339**	13
Loan assets held at amortised cost	**–**	1,313
Other financial assets at fair value through profit or loss	**114**	2
Property, plant and equipment	**32**	500
Interests in associates and joint ventures accounted for using the equity method	**71**	18
Intangible assets	**573**	76
Other liabilities	**(795)**	(263)
Payables to financial institutions	**–**	(670)
Total carrying value of net assets disposed of or deconsolidated	**440**	1,011
Consideration		
Cash consideration	**1,352**	1,290
Consideration received in equity	**–**	6
Total consideration	**1,352**	1,296
In specie distribution	**131**	–
Net cash flow		
Cash consideration	**1,352**	1,290
Less:		
Cash and cash equivalents disposed of or deconsolidated	**–**	(14)
Net cash inflow	**1,352**	1,276

The 31 March 2015 comparatives principally relate to the following entities or businesses disposed of or deconsolidated due to loss of control:

Macquarie Rail Inc., Macquarie Rail Canada Limited, CMC Industries Inc., Texas Rail Terminal LLC, TRT LeaseCo LLC, Macquarie Equipment Finance Inc, Macquarie Equipment Funding LLC, UPL (No. 15) Pty Limited, Delaware Investment Advisers, Delaware Capital Management, Delaware Investments Fund Advisers, Delaware Large Cap Core Fund Class I, Macquarie Equities New Zealand Limited, Macquarie Equities Custodians, Macquarie PA TAP Management I Inc., Macquarie NM Management II Inc., Macquarie NM Management I Inc, Macquarie HiTIP Management I Inc., Macquarie Generation Management II Inc. and Macquarie Generation Management I Inc.

Notes to the financial statements
for the financial year ended 31 March 2016
continued

Note 43
Discontinued operations and held for sale disposal group

The Consolidated Entity has disposed of its Macquarie Investment Management (MIM) business to the Macquarie Financial Holdings Pty Limited Group which is a fully owned subsidiary of the Macquarie Group. MIM was previously operating within the MAM operating segment and offering asset and wealth management services within the products and services segment. MIM offers investment management expertise across a number of asset classes including fixed interest, credit and currencies, equities, infrastructure securities and multi-asset allocation solutions. MIM delivers a full-service offering to both retail and institutional clients in Australia and the US, with selective offerings in other regions.

(i) Income statement and cash flow information

	Consolidated 2016 $m	Consolidated 2015 $m	**Bank 2016 $m**	Bank 2015 $m
Net operating income/(expense)	**71**	1,045	**(8)**	59
Total operating expenses	**(30)**	(758)	**(14)**	(119)
Operating profit before income tax	**41**	287	**(22)**	(60)
Gain on disposal	**1,009**	–	**655**	–
Profit/(loss) from discontinued operations before income tax	**1,050**	287	**633**	(60)
Income tax expense	**(10)**	(97)	**8**	28
Profit/(loss) from discontinued operations (net of income tax)[1]	**1,040**	190	**641**	(32)
Cash flow from operating activities	**31**	177	**–**	–
Cash flow from/(used in) investing activities	**–**	25	**–**	–
Cash flow used in financing activities	**(184)**	(190)	**–**	–
Net increase/(decrease) in cash and cash equivalents	**(153)**	12	**–**	–
Cash and cash equivalents at the beginning of the financial year	**153**	141	**–**	–
Cash and cash equivalents at the end of the financial year	**–**	153	**–**	–

[1] Profit from discontinued operations includes income and expenses recorded in the Corporate operating segment that relate to MIM and its subsidiaries.

(ii) Assets and liabilities of held for sale disposal group

Assets				
Receivables from financial institutions	**–**	108	**–**	–
Investment securities available for sale	**–**	43	**–**	43
Intangible assets	**–**	552	**–**	–
Investment in subsidiaries	**–**	–	**–**	62
Other assets	**–**	369	**–**	82
Total assets	**–**	1,072	**–**	187
Liabilities				
Due to related body corporate entities	**–**	388	**–**	118
Other liabilities	**–**	391	**–**	57
Total liabilities	**–**	779	**–**	175
Net assets	**–**	293	**–**	12

(iii) Cumulative income included in other comprehensive income

The following table shows equity reserves, representing cumulative other comprehensive income relating to MIM.

Foreign currency translation reserve	**–**	25	**–**	–
Total reserves	**–**	25	**–**	–

Note 44
Events occurring after reporting date

There were no material events subsequent to 31 March 2016 that have not been reflected in the financial statements.

Macquarie Bank Limited
Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 41 to 167 are in accordance with the *Corporations Act 2001* (Cth), including:
   (i) complying with the accounting standards, and
   (ii) giving a true and fair view of the Bank and Consolidated Entity's financial position as at 31 March 2016 and performance for the financial year ended on that date, and

b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable, and
c) the financial statements also comply with International Financial Reporting Standards (see Note 1(i) – Basis of preparation set out on page 48 and 49, and
d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 17 – Deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 17 – Deed of cross guarantee.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* (Cth).

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

Peter Warne

Independent Director and
Chairman

Mary Reemst

Managing Director and
Chief Executive Officer

Sydney
6 May 2016

Independent auditor's report

to the members of Macquarie Bank Limited

pwc

Report on the financial report

We have audited the accompanying financial report of Macquarie Bank Limited (the Bank), which comprises the statements of financial position as at 31 March 2016, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Bank Limited and the Consolidated Entity. The Consolidated Entity comprises the Bank and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth) and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 – Summary of significant accounting policies, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001* (Cth).

Auditor's opinion

In our opinion:

a) the financial report of Macquarie Bank Limited is in accordance with the *Corporations Act 2001* (Cth), including:
   (i) giving a true and fair view of the Bank's and Consolidated Entity's financial position as at 31 March 2016 and of their performance for the year ended on that date, and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 39 of the Directors' Report for the year ended 31 March 2016. The directors of the Bank are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Bank Limited for the year ended 31 March 2016 complies with section 300A of the *Corporations Act 2001* (Cth).

PricewaterhouseCoopers

K.G. Smith

Partner

Sydney
6 May 2016

Liability limited by a scheme approved under Professional Standards Legislation.

Additional Investor Information

Securityholder Calendar

2016

Date	Event
15 July	Payment date for MIS distribution
28 July	AGM
26 September	Payment date for BCN distribution
30 September	Half-year financial end
17 October	Payment date for MIS distribution
30 October[1]	Half-year results announcement

(1) This date is subject to change.

2017

Date	Event
16 January	Payment date for MIS distribution
24 March	Payment date for BCN distribution
31 March	Full-year financial year end
17 April	Payment date for MIS distribution

2016 Annual General Meeting

Macquarie Bank's 2016 AGM will be held on Thursday, 28 July 2016 in the Macquarie Auditorium, Level 10, 50 Martin Place, Sydney, NSW after the Macquarie Group Limited AGM but not earlier than 2.00 pm. Details of the business of the meeting will be forwarded to securityholders separately.

Stock Exchange Listing

Macquarie Income Securities (MIS) are quoted on the ASX and trade under the code MBLHB.

Macquarie Bank Capital Notes (BCN) are quoted on the ASX and trade under the code MBLPA.

Macquarie Exchangeable Capital Securities (Macquarie ECS) are listed on the Singapore Stock Exchange and trade under the stock code 2AQB.

Macquarie Bank also has debt securities quoted on the London Stock Exchange, Luxembourg Stock Exchange, SIX Swiss Exchange (Switzerland), Singapore Stock Exchange, Tokyo Stock Exchange and the Taipei Exchange (GreTai Securities Market) and has warrants quoted on the Luxembourg Stock Exchange, Singapore Stock Exchange, Hong Kong Stock Exchange and the ASX.

Distribution details

Macquarie Bank Limited

Macquarie Bank Limited makes distribution payments twice annually in arrears in respect of the BCN on or about 24 March and September each year. Dates and payment rates are listed at macquarie.com/investors

Macquarie Finance Limited

Macquarie Finance Limited makes interest payments quarterly in arrears in respect of MIS on or about 15 January, April, July and October each year. Dates and payment rates are listed at macquarie.com/investors

Voting rights

At meetings of members or classes of members, each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative.

On a show of hands, every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

i) one vote for each fully paid ordinary share held, and
ii) that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

Macquarie Income Securities (MIS)

Holders of MIS, as holders of a stapled security that includes a preference share, have the right to vote at any general meeting of Macquarie Bank only in one or more of the following circumstances:

i) during a period when two consecutive Semi-annual Dividends (as defined in the preference share terms) due and payable on the preference shares have not been paid in full, and no optional Dividend (as defined in the preference share terms) has been paid
ii) on any proposal to reduce Macquarie Bank's share capital
iii) on any resolution to approve the terms of a buy-back agreement
iv) on any proposal that affects the rights attaching to the preference shares
v) on a proposal to wind up Macquarie Bank
vi) on any proposal for the disposal of the whole of Macquarie Bank's property, business and undertaking
vii) during the winding up of Macquarie Bank.

In these circumstances, holders have the same rights as to attendance and voting (in respect of each preference share) as those conferred on holders of ordinary shares.

Macquarie Income Preferred Securities (MIPS)

Unpaid preference shares were issued by Macquarie Bank as part of the MIPS issue. MIPS have been fully redeemed, although the unpaid preference shares remain on issue, held by Macquarie BH Pty Limited, the immediate parent of Macquarie Bank. While these preference shares remain unpaid, they have no voting rights. If paid up, these preference shares will have the same voting rights as holders of MIS, except that instead of having a right to vote in situation i) above, they have a right to vote at any general meeting of Macquarie Bank during a period in which a dividend has been declared on the preference shares but the dividend has not been paid in full by the relevant dividend payment date.

Macquarie Bank Capital Notes (BCN)

BCN are unsecured, subordinated notes issued by Macquarie Bank Limited. They are non-cumulative and mandatorily convertible. BCN holders have no voting rights in respect of Macquarie Bank Limited or Macquarie Group Limited.

Macquarie Exchangeable Capital Securities (Macquarie ECS)

Macquarie ECS are notes issued by Macquarie Bank acting through its London Branch. The ECS are exchangeable for ordinary shares of MGL under certain circumstances. Provisions for meetings of holders of the ECS are contained in the ECS Trust Deed. The ECS do not confer a right to attend or vote at any general meeting of Macquarie Bank.

Macquarie Income Securities

Twenty-three largest MIS holders at 25 April 2016:	MIS	% of MIS
National Nominees Limited	284,980	7.12
HSBC Custody Nominees (Australia) Limited	232,685	5.82
JP Morgan Nominees Australia Limited	220,875	5.52
Navigator Australia Ltd <MLC Investment Sett A/C>	89,748	2.24
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	70,070	1.75
Questor Financial Services Limited <TPS RF A/C>	57,859	1.45
BNP Paribas Noms Pty Ltd <DRP>	34,256	0.86
Citicorp Nominees Pty Ltd	30,211	0.76
Australian Executor Trustees Limited <DDH Preferred Income Fund>	27,092	0.68
Jilliby Pty Ltd	15,469	0.39
Argo Investments Limited	15,000	0.38
Catholic Church Endowment Society Inc	15,000	0.38
UBS Nominees Pty Ltd <TP00014 10 A/C>	14,766	0.37
Australian Executor Trustees Limited <No 1 Account>	14,610	0.37
UBS Nominees Pty Ltd	13,172	0.33
Speliza Investments Pty Ltd <Greysmed P/L Super Fund A/C>	12,445	0.31
Mr Aaron Aldenton	11,550	0.29
JGW Investments Pty Ltd	10,320	0.26
Mrs Georgia Louise Rasmussen	10,098	0.25
Mrs Yvonne Marjan Black	10,000	0.25
Minbashin & Co Pty Ltd <Minbashin & Co P/L S/F A/C>	10,000	0.25
Temple Society Australia	10,000	0.25
Mr Victor Allan Whitby + Ms Lorraine Joyce Whitby <VA & LJ Whitby S/F/ A/C>	10,000	0.25
Total	**1,220,206**	**30.51**

Spread of Macquarie Income Securities

Details of the spread of MIS holdings at 25 April 2016 are as follows:

Range	Holders	Securities
1 – 1,000	5,667	1,666,300
1,001 – 5,000	485	916,448
5,001 – 10,000	31	237,046
10,001 – 100,000	16	441,666
100,001 securities and over	3	738,540
Total	**6,202**	**4,000,000**

11 securityholders (representing 47 MIS) held less than a marketable parcel.

Additional Investor Information
continued

Macquarie Bank Capital Notes

Twenty largest BCN holders at 25 April 2016:	BCN	% of BCN
HSBC Custody Nominees (Australia) Limited	153,381	3.57
Navigator Australia Ltd <MLC Investment Sett A/C>	130,423	3.04
Citicorp Nominees Pty Limited	80,000	1.86
Netwealth Investments Limited <Wrap Services A/C>	74,551	1.74
BNP Paribas Noms Pty Ltd <DRP>	73,489	1.71
National Nominees Limited	71,865	1.67
Questor Financial Services Limited <TPS RF A/C>	67,877	1.58
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	66,796	1.56
Mr Zhiliang Yang	60,000	1.40
PEJR Pty Ltd <Lederer Group A/C>	50,000	1.16
RBC Investor Services Australia Nominees Pty Limited <Multiport A/C>	46,629	1.09
J P Morgan Nominees Australia Limited	42,918	1.00
Netwealth Investments Limited <Super Services A/C>	35,410	0.82
Aust Executor Trustees Ltd <DDH Preferred Income Fund>	27,776	0.65
Pacific Development Corporation Pty Ltd	22,600	0.53
Pelatron Pty Ltd	22,500	0.52
IOOF Investment Management Limited <IPS Super A/C>	19,265	0.45
VIP Finance Pty Ltd	18,000	0.42
Questor Financial Services Limited <TPS PIP A/C>	16,904	0.39
Federation University Australia	15,171	0.35
Total	**1,095,555**	**25.51**

Spread of Macquarie Bank Capital Notes

Details of the spread of BCN holdings at 25 April 2016 are as follows:

Range	Noteholders	Notes
1 – 1,000	5,251	1,810,943
1,001 – 5,000	451	970,101
5,001 – 10,000	37	294,827
10,001 – 100,000	28	934,430
100,001 securities and over	2	283,804
Total	**5,769**	**4,294,105**

4 noteholders (representing 12 BCN) held less than a marketable parcel.

Macquarie Income Preferred Securities

Macquarie Bank issued convertible debentures and 350,000 unpaid preference shares as part of the MIPS. The convertible debentures were fully redeemed on 22 June 2015. The unpaid preference shares are held by Macquarie BH Pty Limited. The register in respect of the preference shares is kept at Macquarie Bank's principal administrative office at 50 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

Website

To view the Annual Reports, presentations, distribution information and other investor information, please visit macquarie.com/investorrelations

Enquiries

Investors who wish to enquire about any administrative matter relating to their MIS or BCN securityholding are invited to contact the Share Registry at:

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000 Australia

Telephone (within Australia): 1300 554 096
Telephone (international): +61 1300 554 096

Email: macquarie@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

All other enquiries relating to a MIS or BCN holding can be directed to:

Investor Relations

Macquarie Group
Level 6, 50 Martin Place
Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333
Facsimile: +61 2 8232 7780

Email: macquarie.shareholders@macquarie.com
Website: macquarie.com/investors

Macquarie Bank's Company Secretary, Dennis Leong, may be contacted on the above numbers

This is the end of the Additional Investor Information.

Glossary

AASB	Australian Accounting Standards Board
the Act	*Corporations Act 2001* (Cth)
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
AICD	Australian Institute of Company Directors
AMA	Advanced Measurement Approach
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ATO	Australian Taxation Office
BAC	Board Audit Committee
the Bank	Macquarie Bank Limited
Banking Group	the Banking Group comprises BFS, CAF, CFM, MAM and the trading activities of MSG
BBSW	Australian Financial Markets Association's bank-bill rate, published daily on AAP Reuters webpage. The Australian equivalent of LIBOR, SIBOR, etc
BCN	Macquarie Bank Capital Notes
BFS	Banking and Financial Services
the Board	the Board of Voting Directors of Macquarie Bank Limited
BRC	Macquarie's Board Remuneration Committee
BRiC	Macquarie's Board Risk Committee
CAF	Corporate and Asset Finance
CAGR	compound annual growth rate
Central Service Groups	the Central Service Groups consist of RMG, Legal and Governance, FMG and COG
CEO	Managing Director and Chief Executive Officer
CFM	Commodities and Financial Markets
CFO	Chief Financial Officer
COG	Corporate Operations Group
the Company	Macquarie Bank Limited
Comparable Key Management Personnel (Comparable KMP)	Executive KMP who were members of the Executive Committee for the full year in both FY2016 and FY2015
the Consolidated Entity	Macquarie Bank Limited and its subsidiaries
Corporate	head office and central support functions including Group Treasury
CRO	Chief Risk Officer
CVA	credit valuation adjustments
Deed	Deed of Indemnity, Access and Insurance dated 4 August 1998
Deed Poll	Indemnity and Insurance Deed Poll dated 30 July 1999
Directors	the Voting Directors of Macquarie Bank Limited (unless the context indicates otherwise)
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
ECL	expected credit losses
ECS	Macquarie Exchangeable Capital Securities

EPS	earnings per share
ESP	Macquarie Group Employee Share Plan
Executive Key Management Personnel – (Executive KMP)	Members of the Executive Committee of Macquarie Bank Limited
Executive Voting Director	an executive board member
FIRB	Foundation Internal Ratings Based
FMG	Financial Management Group
FVA	funding value adjustment
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT	information technology
LMI	Lender’s mortgage insurance
LVRs	loan to value ratios
Key Management Personnel (KMP)	all Voting Directors and members of the Executive Committee of Macquarie Bank Limited
Macquarie Bank, MBL, the Bank, the Company	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board	the Board of Voting Directors of Macquarie Group Limited
Macquarie ordinary shares, MQG	Macquarie Group Limited fully paid ordinary shares
Macquarie, MGL, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie Funds	Macquarie-managed funds
Malus	the discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee’s action or inaction has caused Macquarie significant reputational harm, caused a significant or unexpected financial loss or caused Macquarie to make a material financial restatement
MAM	Macquarie Asset Management
MBHPL	Macquarie B.H. Pty Limited
MCN	Macquarie Group Capital Notes
MCN2	Macquarie Group Capital Notes 2
MEREP	Macquarie Group Employee Retained Equity Plan
MFHL	Macquarie Financial Holdings Limited
MFL	Macquarie Finance Limited
MFL Note	an unsecured debt obligation of MFL, issued to a trustee on behalf of the holders of the MIS
MGESOP	Macquarie Group Employee Share Option Plan
MGSA	Macquarie Group Services Australia Pty Limited
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIM	Macquarie Investment Management
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
MSG	Macquarie Securities Group
NCD	negotiable certificates of deposit

Glossary
continued

NCI	non-controlling interests
NED	Non-Executive Director
Non-Banking Group	the Non-Banking Group comprises Macquarie Capital and some business activities of MSG, MAM and CFM that use certain offshore regulated entities of the Non-Banking Group
NPAT	net profit after tax
OCI	other comprehensive income
OECD	Organisation for Economic Co-operation and Development
Operating Groups	the Operating Groups consist of BFS, CAF, CFM, MAM and MSG
OTC	over-the-counter
Post-2009 DPS Plan	retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity
PSU	Performance Share Unit issued under the MEREP
PwC	PricewaterhouseCoopers
RAS	Risk Appetite Statement
RMG	Risk Management Group
ROE	return on ordinary equity
RSU	Restricted Share Unit issued under the MEREP
SEs	structured entities
SFE	Sydney Futures Exchange
SPE	Special Purpose Entity
SYD	ASX-listed Sydney Airport
SYD Securities	Sydney Airport stapled securities
TSR	total shareholder returns
VaR	Value-at-Risk
Voting Directors	the Voting Directors of Macquarie Bank Limited as defined in the Bank's Constitution

Contact Details

Macquarie Bank
Principal Administrative Office
50 Martin Place
Sydney NSW 2000
Australia
Tel: +61 2 8232 3333

Registered Office
Macquarie Bank Limited
Level 6, 50 Martin Place
Sydney NSW 2000
Australia
Tel: +61 2 8232 3333

Paper Stock

Monza Recycled is Certified Carbon Neutral by The Carbon Reduction Institute (CRI) in accordance with the global Greenhouse Gas Protocol and ISO 14040 framework. Monza Recycled contains 55% recycled fibre (25% post consumer and 30% pre consumer) and is FSC Mix Certified, which ensures that all virgin pulp is derived from well-managed forests and controlled sources. It is manufactured by an ISO 14001 certified mill.

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