MACQUARIE BANK INTERNATIONAL LIMITED

COMPANY NUMBER 06309906

Annual Report and Financial Statements
for the financial year ended 31 March 2016

MACQUARIE

The Company's registered office is:
Ropemaker Place
28 Ropemaker Street
London EC2Y 9HD
United Kingdom

Macquarie Bank International Limited

2016 Annual Report and Financial Statements

Contents

Strategic Report
for the financial year ended 31 March 2016

In accordance with a resolution of the directors (the "Directors") of Macquarie Bank International Limited (the "Company"), the Directors submit herewith the Strategic Report of the Company as follows:

Principal activities

The principal activity of the Company during the financial year ended 31 March 2016 was to act as a licensed banking entity.

The Company performed a range of activities on behalf of the Macquarie Asset Management Group, the Corporate and Asset Finance Group and the Commodities and Financial Markets Group of the Macquarie Group.

The Company has branches in Austria and Germany.

Review of operations

The profit for the financial year ended 31 March 2016 was £749,000, a decrease of 90 per cent from the profit of £7,338,000 in the previous year.

Net operating income for the year ended 31 March 2016 was £13,062,000, a decrease of 14 per cent from the operating income of £15,150,000 in the previous year.

Total operating expenses for the year ended 31 March 2016 were £12,592,000, an increase from £6,403,000 in the previous year.

As at 31 March 2016, the Company had net assets of £189,651,000 (2015: £190,056,000).

The German branch contributed a loss of £1,291,000 and the Austrian branch contributed a profit of £221,000 to the overall profit on ordinary activities before taxation of £470,000. In the prior year the contribution was a loss of £2,003,000 (German branch) and a profit of £530,000 (Austrian branch) to the overall profit on ordinary activities before taxation of £8,747,000.

Principal risks and uncertainties

The Company is responsible for its own risk acceptance decisions. From the perspective of the Company, the principal risks are market risk, credit risk, liquidity risk and exposure to the performance of its subsidiaries. The Company has in place appropriate limits in relation to those material risks which are monitored against set limits by the relevant division of the Risk Management Group ("RMG") of the Macquarie Group.

The Company manages its risks in accordance with the Macquarie Group wide risk management framework and, additionally, has entered into a Risk Transfer Agreement with Macquarie Bank Limited ("MBL") to pass on the risks and rewards of specified transactions. The principal risks and uncertainties of Macquarie Group Limited ("MGL"), which include those of the Company, are discussed in its financial statements and can be obtained from the address given in Note 30.

On 23 June 2016, a referendum was held on Britain's membership of the European Union ("EU"), which resulted in the decision to exit the EU. The economic, regulatory and legal environment as a result would depend on the nature of the transitional arrangements. The Macquarie Group operates parts of its European Union business from United Kingdom based subsidiaries such as the Company. The Company continues to assess the possible impacts and its strategic options.

Strategic Report (continued)
for the financial year ended 31 March 2016

Financial risk management

Risk is an integral part of the Macquarie Group's businesses. The Company is exposed to a variety of financial risks that include the effect of credit risk, liquidity risk, operational risk, market risk and exposure to the performance of its subsidiaries. Additional risks faced by the Company include legal, compliance and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of RMG to ensure appropriate project assessment, monitoring and overall management of these risks.

As ultimately an indirect subsidiary of both MBL and MGL, the Company manages risk within the framework of the overall strategy and risk management structure of the Macquarie Group. RMG is independent of all other areas of the Macquarie Group, reporting directly to the Managing Director and the Board of MGL. The Head of RMG is a member of the Executive Committee of MBL and MGL. 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 of MGL.

The risks which the Company is exposed to are managed on a globally consolidated basis for both MBL and MGL as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions. Key risks include:

Credit risk

Credit risk on lending and trading transactions undertaken by the Company is managed within limits set by RMG. Certain business operations within the Company mitigate their exposure to credit risk by utilising the Risk Transfer Agreement to transfer credit risk to MBL.

Interest rate risk

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash balances, loan balances and receivables from other Macquarie Group subsidiaries, which earn a variable rate of interest. Loans held at amortised cost earn either a fixed or variable rate of interest. Interest bearing liabilities include payables to other Macquarie Group subsidiaries, which also incur a variable rate of interest. Certain business operations within the Company mitigate their exposure to interest rate risk by utilising the Risk Transfer Agreement to transfer interest rate risk to MBL.

Foreign exchange risk

The Company has foreign exchange exposures which include amounts receivable from and payable to other Macquarie Group subsidiaries and external parties which are denominated in non-functional currencies. The Company uses derivative financial instruments and the Risk Transfer Agreement to manage specific foreign exchange risk. Any material remaining non-functional currency exposures are managed by applying a group wide process of limiting exposure at an individual company level.

Strategic Report (continued)
for the financial year ended 31 March 2016

Financial risk management (continued)
Operational risk

The Company operates within a global framework which is applied consistently across all business lines within the Macquarie Group for the identification, monitoring, management and reporting of operational risk. Operational risk management occurs largely as part of the normal day to day running of each business with the framework, policies and oversight being managed at a central level by RMG. The framework can be tailored to the risk profile of each business, but each business must comply with certain mandatory aspects.

Liquidity risk

The Company is funded through equity and debt financing from other entities in the Macquarie Group. Monitoring by RMG and Macquarie Group's Treasury department ensures the Company has sufficient available funds for operations and planned expansion.

Key performance indicators (KPIs)
Given the nature of the business and the information provided elsewhere in this report, the Directors are of the opinion that the production of KPIs in the Strategic Report is not necessary for an understanding of the development, performance or position of the business. KPIs are monitored at each business segment and also at the Macquarie Group level.

On behalf of the Board

Director T WADE

20 JULY 2016

Directors' Report
for the financial year ended 31 March 2016

In accordance with a resolution of the Directors of the Company, the Directors submit herewith the audited financial statements of the Company and report as follows:

Directors and Secretaries

The Directors who each held office as a Director of the Company throughout the year and until the date of this report, unless disclosed otherwise, were:

D Fass	
P Plewman	
T Wade	(Independent Non-Executive Director)
A Williams	(Independent Non-Executive Director)

The Secretary who held office as a Secretary of the Company throughout the year and until the date of this report, unless disclosed otherwise, was:

H Everitt

Results

The profit for the financial year ended 31 March 2016 was £749,000 (2015: £7,338,000).

Dividends paid or provided for

No dividends were paid or proposed during the financial year (2015: £nil).

State of affairs

The Company has branches in Austria and Germany.

On 15 April 2015, MGL, MBL, Macquarie B.H. Pty Ltd. and Macquarie Financial Holdings Pty Limited ("MFHPL") signed a Restructure Deed. Through the Restructure Deed, MBL transferred all of the economic risks and rewards from, and control of, the Macquarie Investment Management ("MIM") business (which operates in the Macquarie Asset Management segment) to MFHPL and its subsidiaries ("MFHPL Group"). This transfer from MBL will also impact its underlying subsidiaries that operate MIM businesses.

As a result of the Restructure Deed, the Company (being an indirect subsidiary of MBL) will consider the sale of its MIM related assets, including its investments in Macquarie Investments 3 Limited and Macquarie Investment Management Holdings (Austria) GmbH, to another entity in the MFHPL Group. The sales will be considered once the relevant regulatory approvals have been obtained.

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

Events after the reporting period

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

Likely developments, business strategies and prospects

The Directors believe that no significant changes are expected other than those already disclosed in this report.

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

Indemnification and insurance of Directors
As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The ultimate parent, MGL, purchased and maintained throughout the financial year Directors' liability insurance in respect of the Company and its Directors.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and UK Accounting standards including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors
So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps necessary in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors
Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the Directors or the members of the Company resolve to terminate their appointment. As at the date of these financial statements, the Directors are not aware of any resolution to terminate the appointment of the auditors.

On behalf of the Board

T WADE

Director

20 JULY 2016

Independent Auditors' Report to the members of Macquarie Bank International Limited

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Macquarie Bank International Limited's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements comprise:

- the balance sheet as at 31 March 2016;
- the profit and loss account and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the members of Macquarie Bank International Limited (continued)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Carl Sizer (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 July 2016

Financial Statements

Profit and loss account
for the financial year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Interest receivable and similar income		**17,029**	9,652
Interest payable and similar charges		**(4,679)**	(2,803)
Net interest income	2	**12,350**	6,849
Fee and commission income		**17,666**	17,006
Fee and commission expense		**(20,237)**	(9,840)
Net fee and commission (expense)/income	2	**(2,571)**	7,166
Other operating income and charges	2	**3,283**	1,135
Net operating income		**13,062**	15,150
Administrative expenses	2	**(10,031)**	(6,403)
Impairment charge on investment in subsidiaries		**(2,561)**	-
Total operating expenses		**(12,592)**	(6,403)
Profit on ordinary activities before taxation	2	**470**	8,747
Tax on profit on ordinary activities	4	**279**	(1,409)
Profit for the financial year	20	**749**	7,338
Profit attributable to ordinary equity holders of Macquarie Bank International Limited		**749**	7,338

The above profit and loss account should be read in conjunction with the accompanying notes on pages 13 to 40.

Profit on ordinary activities before taxation relate wholly to continuing activities.

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

	Note	2016 £'000	2015 £'000
Profit for the financial year		**749**	7,338
Other comprehensive (expense)/income[1]:			
Available for sale investments, net of tax	20	**(1,009)**	(187)
Exchange differences on translation of foreign operations	20	**(284)**	120
Total other comprehensive expense		**(1,293)**	(67)
Total comprehensive (expense)/income		**(544)**	7,271
Total comprehensive expense attributable to			
Ordinary equity holders of Macquarie Bank International Limited		**(544)**	7,271

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

The above statement of comprehensive income should be read in conjunction with the accompanying notes on pages 13 to 40.

Balance sheet
as at 31 March 2016

	Note	2016 £'000	2015 £'000
Assets			
Receivables from financial institutions	5	**92,379**	101,958
Derivative assets	16	**393,246**	272,355
Investment securities available for sale	6	**-**	1,780
Other assets	7	**85,173**	37,481
Loan assets held at amortised cost	8	**242,505**	91,178
Tangible assets	9	**27**	59
Shares in group undertakings	10	**17,055**	18,697
Deferred tax assets	11	**2,774**	1,175
Total assets		**833,159**	524,683
Liabilities			
Derivative liabilities	16	**394,407**	272,894
Deposits	12	**137,215**	56,805
Payables to financial institutions	13	**104,899**	-
Current tax liabilities		**855**	1,754
Other liabilities	14	**3,611**	1,761
Provisions	15	**2,521**	1,413
Total liabilities		**643,508**	334,627
Net assets		**189,651**	190,056
Shareholders' funds			
Called up share capital	18	**200,000**	200,000
Contribution from ultimate parent entity in relation to share-based payments	19	**843**	704
Reserves	20	**(180)**	1,113
Profit and loss account	20	**(11,012)**	(11,761)
Total shareholders' funds		**189,651**	190,056

The above balance sheet should be read in conjunction with the accompanying notes on pages 13 to 40.

The financial statements on pages 9 to 40 were approved by the Board of Directors on 20 July 2016 and were signed on its behalf by:

Director T DADE

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

	Note	Called up share capital £'000	Contribution from ultimate parent entity in relation to share-based payments £'000	Reserves £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2014		200,000	542	1,180	(19,099)	182,623
Profit for the financial year		-	-	-	7,338	7,338
Other comprehensive expense, net of tax		-	-	(67)	-	(67)
Total comprehensive income	20	-	-	(67)	7,338	7,271
Other equity movements:						
Deferred tax on share-based payments		-	162	-	-	162
Balance at 31 March 2015		**200,000**	**704**	**1,113**	**(11,761)**	**190,056**
Profit for the financial year		-	-	-	749	749
Other comprehensive expense, net of tax		-	-	(1,293)	-	(1,293)
Total comprehensive income	20	-	-	(1,293)	749	(544)
Other equity movements:						
Deferred tax on share-based payments		-	139	-	-	139
Balance at 31 March 2016		**200,000**	**843**	**(180)**	**(11,012)**	**189,651**

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 13 to 40.

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

Note 1. Summary of significant accounting policies

The Company is a private company and is incorporated and domiciled in the UK. The address of its registered office is Ropemaker Place, 28 Ropemaker Street, London EC2Y 9HD, United Kingdom.

i) Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006 ("the Act"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment securities available for sale and certain other assets and liabilities (including derivatives) at fair value.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards.

The Company is a qualifying entity for the purposes of FRS 101. Note 30 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") may be obtained.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 was 1 April 2014. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions availed of by the Company in these financial statements. Note 29 provides details of the impact of adopting FRS 101 on the Company's previously adopted accounting policies.

The Company previously prepared its financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

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

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as a parent of a group. The Company is exempt under section 401 of the Act from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent, MGL, a company incorporated in Australia.

New Accounting Standards that are effective and adopted in the current financial year

Note 29 gives an explanation of the transition to FRS 101 and a reconciliation of: (i) shareholders' funds determined in accordance with UK GAAP to shareholders' funds determined in accordance with FRS 101 as at 1 April 2014 and 31 March 2015; and (ii) profit or loss determined in accordance with UK GAAP to profit or loss determined in accordance with FRS 101 for the year ended 31 March 2015.

In accordance with FRS 101 the Company has availed of an exemption from the following requirements of IFRS:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share-based Payment' (details of the number and weighted average exercise price of share-based payment arrangements concerning equity instruments of another group entity and how the fair value of goods or services received as determined)
- the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- the requirements of paragraphs 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of Paragraph 73(e) of IAS 16 'Property, Plant and Equipment'
- the requirements of IAS 7 'Statement of Cash Flows'
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- the requirements of paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation)
- the requirements of IAS 24 to disclose related party transactions entered into between two or more members of a group where both parties to the transaction are wholly owned within the group; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.

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

Note 1. Summary of significant accounting policies (continued)

i) Basis of preparation (continued)

Critical accounting estimates and significant judgements

The preparation of the financial statements in conformity with FRS 101 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 the Company and the financial statements such as:

- fair value of financial assets (Notes 1(v) and 26);
- impairment of loan assets held at amortised cost, investment securities available for sale (Notes 1(viii), 6 and 8); and
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(iv), 4 and 11).

Estimates and judgments 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.

ii) Foreign currency translations

Functional and presentation currency

Items included in the financial statements of foreign operations are measured using the currency of the primary economic environment in which the foreign operation operates (the functional currency). The Company's financial statements are presented in the presentation currency, which is the Company's functional currency (pound sterling).

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses 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 profit and loss account.

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 profit and loss account. Translation differences on non-monetary items (such as equities) classified as available for sale financial assets are included in the available-for-sale reserve in equity.

Exchange differences arising from the translation of the Company's foreign branches, which have functional currencies other than pound sterling, are taken to the foreign currency translation reserve.

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

Note 1. Summary of significant accounting policies (continued)

iii) Revenue and expense recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

Net interest income

Interest income and expense 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 exactly discounts estimated future cash payments or receipts 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 profit and loss 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 during the year comprises fee income and expenses brought to account on the following basis:

- Management fee income earned on underlying European funds management activities. These fees are recognised as and when the service is performed by the Company.
- Fee income for facilitation of Commodities and Financial Markets Group trading activities is recognised in line with an approved services agreement.
- Other income and expenses are recognised in line with approved service agreements.

Net trading income

Net trading income comprises gains and losses related to derivative assets and liabilities and includes all realised and unrealised fair value changes.

Dividends

Interim dividends from UK companies are recognised when the dividend proceeds are received by the Company. Final dividends from investments in UK companies and dividends from investments in overseas companies are recognised when the Company becomes entitled to the dividend.

Expenses

Expenses are brought to account on an accruals basis and, if not paid at the end of the reporting period, are reflected in the balance sheet as a payable.

iv) Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

Note 1. Summary of significant accounting policies (continued)

v) Derivative instruments

Derivative instruments entered into by the Company include forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, and commodity markets.

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured 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 value of derivatives are recognised in the profit and loss account, unless the derivative meets the requirements for cash flow or net investment hedge accounting.

The best evidence of a derivative's fair value at initial recognition is the 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 evidence exists, the Company recognises profits or losses immediately when the derivative is recognised.

vi) Hedge accounting

The Company designates certain derivatives or financial instruments as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the Company documents the hedging relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies. The Company 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 i.e. cash flow hedges, fair value hedges and net investment hedges.

Fair value hedges

For a derivative or financial instrument designated as hedging a fair value exposure arising from a recognised asset or liability (or an unrecognised firm commitment), the gain or loss on the derivative or financial instrument is recognised in the profit and loss account immediately together with the loss or gain on the hedged asset or liability that is attributable to the hedged risk.

vii) Investments and other financial assets

With the exception of derivatives which are classified separately in the balance sheet, the remaining investments in financial assets are classified into the following categories: loans and receivables, investment securities available for sale and shares in group undertakings. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and is re-evaluated at each balance sheet date.

Loans and advances

The category includes loan assets held at amortised cost, amounts due from related entities, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan assets are subject to regular review and assessment for possible impairment.

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

Note 1. Summary of significant accounting policies (continued)

vii) Investments and other financial assets (continued)

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 of time. Such securities are available for sale and may be sold should the need arise, including for purposes of liquidity, or due to the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair 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 will be recognised in the profit and loss account. 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 using 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 profit and loss account in interest income using the effective interest method as disclosed in Note 1(iii).

Shares in group undertakings

Subsidiaries held by the Company are carried at cost less provision for impairment. Subsidiaries are all those entities over which the Company has the power to direct the relevant activities of the entity, exposure to significant variable returns and the ability to utilise power to affect the Company'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 Company evaluates whether it has the power to direct the relevant activities. The Company also considers the entity's purpose and design. If the Company determines that it has power over an entity, the Company 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.

viii) Impairment

Loan and advances

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 sheet 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 is identified. Where individual loans are found not to be individually impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet specifically identified.

The Company 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 the reporting period.

If, in a subsequent period, the amount of impairment losses decrease and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment losses are reversed through the profit and loss account to the extent of what the amortised cost would have been had the impairment not been recognised.

Loan assets are written off in the period in which it is identified that there is no realistic prospect of recovery.

Note 1. Summary of significant accounting policies (continued)

viii) Impairment (continued)

Investment securities available for sale

The Company performs an assessment at each balance sheet 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.

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.

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.

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 equity is removed from equity and recognised in the profit and loss account.

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

Shares in group undertakings

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.

ix) Tangible assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Tangible fixed assets are reviewed for impairment at each reporting date. Historical cost includes expenditure directly attributable to the acquisition of the asset.

Depreciation on 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 annual rates:

Furniture and fittings	10 to 20 per cent
Leasehold improvements *	20 per cent

* 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 due to an adjustment to its useful life, residual value or impairment, the carrying amount is written down immediately to its recoverable amount. Adjustments arising from such items and on disposal of tangible fixed assets are recognised in the profit and loss account.

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

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

Note 1. Summary of significant accounting policies (continued)

x) Provisions

A provision is recognised where the Company has a present legal or constructive obligation to make a payment as a result of a past event where it is more probable than not that a transfer of economic benefit will be required to settle the obligation and the amount can be reliably estimated.

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 balance sheet at the salary rates which are expected to be paid when the liability is settled. Provisions for 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 the applicable government securities are used. Such discount rates have terms that match as closely as possible to the expected future cash flows.

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

xi) Performance based remuneration

Share-based payments

The ultimate parent entity, 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 22 - Employee equity participation. The Company recognises an expense for its awards granted to its employees by MGL. 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.

Where awards are issued by MGL to employees of the Company, and MGL is not subsequently reimbursed by the Company, the Company recognises the equity provided as a capital contribution from MGL. Where MGL is reimbursed, the Company recognises any amount paid in advance (of the share-based payment to be recognised as an expense over the future vesting period) as a prepaid asset.

MGL annually revises the estimates of the number of awards (including those delivered through MEREP) that are expected to vest. The Company recognises the impact of the revision to original estimates, if any, in the profit and loss, with a corresponding adjustment to equity from MGL.

Profit share remuneration

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

xii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term balance deposits with qualifying financial institutions.

xiii) Reverse repurchase agreements

Reverse repurchase agreements, where the Company purchases securities under an agreement to resell, are conducted on a collateralised basis. The securities subject to the reverse repurchase are not recognised on the balance sheet of the Company, 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 from financial institutions.

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

Note 1. Summary of significant accounting policies (continued)

xiv) 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 Company as lessee, are primarily operating leases. The total fixed payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

xv) Financial liabilities
The Company has on issue financial 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 profit and loss account over the period of the borrowings using the effective interest method.

xvi) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously.

xvii) Called up share capital
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.

xviii) Risk transfer agreements
The Company has entered into financial arrangements/instruments with external counterparties. The credit and market risk associated with most of these transactions is transferred from the Company to MBL, via risk transfer agreements, in the form of back to back trades with MBL or financial guarantees by MBL. The effect of these agreements is to pass on the risks and rewards of the underlying transactions. On the basis that all material risks associated with these transactions are transferred to MBL, the Company receives a fee for the intermediary services it provides. These arrangements do not meet the derecognition criteria under IAS 39 Financial Instruments: Recognition and Measurement and therefore continue to be recognised on the balance sheet with a corresponding intercompany asset or liability.

xix) Rounding of amounts
All amounts in the Strategic Report, Directors' Report and Financial Statements have been rounded to the nearest thousand pound sterling (£'000) unless otherwise indicated.

xx) Comparatives
Where necessary, comparative information has been reclassified to conform with changes in presentation in the current year.

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

	2016 £'000	2015 £'000
Note 2. Profit on ordinary activities before taxation		
Net interest income		
Interest receivable and similar income from:		
Subsidiaries	54	537
Other related entities	3,392	2,046
Other entities	12,420	6,742
Finance lease income from other entities	951	287
Interest payable and similar charges to:		
Subsidiaries	(26)	(21)
Other related entities	(3,912)	(1,882)
Other entities	(529)	(860)
Net interest income	12,350	6,849
Net fee and commission (expense)/income	(2,571)	7,166
Other operating income and charges		
Dividend income	1,739	1,343
Foreign exchange gains/(losses)	331	(350)
Net trading income	162	432
Bad debts written off	-	(16)
Amounts written back on investment securities available for sale	30	-
Gain on sale of investment securities available for sale	1,825	-
Provisions on loans for the financial year	(1,069)	(554)
Other income	265	280
Total other operating income	3,283	1,135
Net operating income	13,062	15,150
Administrative expenses		
Staff costs:		
Wages and salaries	(4,916)	(2,394)
Staff benefit costs	(113)	(121)
Social security costs	(69)	(36)
Share-based payment costs	(1,348)	(103)
Other staff costs	(412)	(358)
Directors' emoluments	(94)	(90)
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the Company	(105)	(93)
Fees payable to the Company's auditors and its associates for other services pursuant to legislation	(96)	(45)
Technology expense – information services	(31)	(39)
Depreciation	(40)	(43)
Services from other Macquarie Group undertakings	(773)	(877)
Operating lease rentals	(148)	(152)
Other accommodation expenses	(56)	(62)
Other professional fees	(1,550)	(1,747)
Other expenses	(280)	(243)
Total administrative expenses	(10,031)	(6,403)

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

Note 3. Employment information

The average number of persons employed by the Company during the year calculated on a monthly basis was:

	2016	2015
By operating group		
Macquarie Asset Management	**13**	13
Corporate and Asset Finance	**1**	-
Total average number of employees	**14**	13

Represents permanent employees of the Company.

	2016	2015
	£'000	£'000

Note 4. Tax on profit on ordinary activities

	2016 £'000	2015 £'000
Analysis of tax for the year		
Current tax:		
UK corporation tax at 20% (2015: 21%)	**1,286**	1,856
Adjustments to tax in respect of prior years	**(113)**	(154)
Overseas tax	**64**	122
Double tax relief	**(55)**	(101)
Total current tax	**1,182**	1,723
Deferred tax:		
Origination and reversal of timing differences	**(972)**	(252)
Adjustments to tax in respect of prior years	**52**	(80)
Change in tax rate	**(541)**	18
Total deferred tax	**(1,461)**	(314)
Tax on profit on ordinary activities	**(279)**	1,409

Factors affecting tax debit for the year:

The income tax expense for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	**470**	8,747
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 20% (2015: 21%)	**(94)**	(1,837)
Effects of:		
Adjustments to tax in respect of prior years	**61**	234
Overseas tax	**(64)**	(122)
Double tax relief	**55**	101
Bank surcharge tax	**(118)**	-
Non deductible expenses	**(450)**	(22)
Non assessable income	**348**	255
Effect of changes in tax rates	**541**	(18)
Total income tax	**279**	(1,409)

The UK Government legislated in Finance (No.2) Act 2015 that the main rate of UK Corporation tax will be reduced to 19% from 1 April 2017 and 18% from 1 April 2020. An 8% banking surcharge was also legislated in Finance (No.2) Act 2015 on profits of banking companies from 1 January 2016. Deferred tax balances in this entity have been restated to 26% (main rate of 18% plus the 8% bank surcharge).

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

	2016 £'000	2015 £'000
Note 5. Receivables from financial institutions		
Cash and other receivables[1]	**30,809**	3,206
Amounts owed by other Macquarie Group undertakings	**-**	66,985
Reverse repurchase agreement	**61,570**	31,767
Total receivables from financial institutions	**92,379**	101,958

[1]Amounts held with unrelated banks are at fixed monthly rates and are either callable on demand or mature monthly. The rate as at 31 March 2016 was between 0% and 0.41% (2015: between 0% and 1.00%).

The above amounts are expected to be recovered within 12 months of the balance sheet date by the Company.

	2016 £'000	2015 £'000
Note 6. Investment securities available for sale		
Equity securities[1]	**-**	-
Loan assets designated as available for sale[2]	**-**	1,780
Total investment securities available for sale	**-**	1,780

[1]Equity securities relate to the investment in Samchully Asset Management Co. Limited which was fully impaired and was sold during the financial year.

[2]Loan assets designated as available for sale were sold during the financial year.

	2016 £'000	2015 £'000
Note 7. Other assets		
Amounts owed by other Macquarie Group undertakings[1]	**80,651**	36,220
Debtors and prepayments	**3,406**	138
VAT receivable	**504**	599
Other	**612**	524
Total other assets	**85,173**	37,481

[1] Amounts owed by other Macquarie Group undertakings are unsecured and have no fixed date of repayment. The Company derives interest on intercompany balances to group undertakings at market rates and at 31 March 2016 the rate applied ranged between LIBOR plus 1.17% and LIBOR plus 1.62% (2015: between LIBOR plus 1.18% and LIBOR plus 1.89%).

The above amounts are expected to be recovered within 12 months of the balance sheet date by the Company.

	2016 £'000	2015 £'000
Note 8. Loan assets held at amortised cost		
Loans and advances	**236,355**	91,213
Less individually assessed provisions for impairment	**(1,934)**	(1,852)
	234,421	89,361
Lease receivables	**10,174**	2,736
Total loan assets before collective allowance for credit losses	**244,595**	92,097
Less collective allowance for credit losses	**(2,090)**	(919)
Total loan assets held at amortised cost	**242,505**	91,178

Included within this balance is an amount of £153,694,000 (2015: £40,937,000) which is expected to be recovered within 12 months of the balance sheet date by the Company.

The receivables under finance leases are as follows:

			2016			2015
	Total future payments £'000	**Unearned interest income £'000**	**Present value £'000**	Total future payments £'000	Unearned interest income £'000	Present value £'000
Not later than one year	**2,935**	**(305)**	**2,630**	1,214	(117)	1,097
Between one and five years	**7,665**	**(121)**	**7,544**	1,754	(115)	1,639
Total	**10,600**	**(426)**	**10,174**	2,968	(232)	2,736

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

	2016 £'000	2015 £'000
Note 8. Loan assets held at amortised cost (continued)		
Individually assessed provisions for impairment		
Balance at the beginning of the financial year	**1,852**	2,497
Provided for/(written back) for during the financial year	**20**	(12)
Utilised during the financial year	**-**	(800)
Attributable to foreign currency translation	**62**	167
Balance at the end of the financial year	**1,934**	1,852
Collective allowance for credit losses		
Balance at the beginning of the financial year	**919**	371
Provided for during the financial year	**1,099**	562
Attributable to foreign currency translation	**72**	(14)
Balance at the end of the financial year	**2,090**	919

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

	2016 £'000	2015 £'000
Note 9. Tangible assets		
Furniture, fittings and leasehold improvements		
Cost	**224**	205
Less accumulated depreciation	**(197)**	(146)
Total furniture, fittings and leasehold improvements	**27**	59
Total tangible assets	**27**	59

Reconciliation of the movement in the Company's tangible assets at their carrying value:

	2016 £'000
Balance at the beginning of the financial year	**59**
Acquisitions	**5**
Foreign exchange movements	**3**
Depreciation expense	**(40)**
Balance at the end of the financial year	**27**

	2016 £'000	2015 £'000
Note 10. Shares in group undertakings		
Investments at cost without provisions for impairment	**10,616**	18,697
Investments at cost with provisions for impairment	**9,000**	-
Less provisions for impairment	**(2,561)**	-
Investments at recoverable amount	**17,055**	18,697
Total investments	**17,055**	18,697

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

	2016 £'000	2015 £'000
Note 10. Shares in group undertakings (continued)		
Reconciliation of movement in fixed investments		
Balance at the beginning of the financial year	**18,697**	20,311
Impairment charge on investment in subsidiaries	**(2,561)**	-
Foreign exchange movements	**919**	(1,614)
Balance at the end of the financial year	**17,055**	18,697

Name of entity	Principal activity	Country of incorporation	% Ownership	2016 £'000	2015 £'000
Shares in group undertakings comprise:					
Macquarie Investments 3 Limited	Investment holding company	England and Wales	100	**6,439**	9,000
Macquarie Investment Management Holdings (Austria) GmbH	Investment holding company	Austria	100	**10,616**	9,697
Total				**17,055**	18,697

The Directors believe that the carrying values of the investments are supported by their recoverable value.

Macquarie Investments 3 Limited

The Company owns 100% of the share capital of Macquarie Investments 3 Limited ("MI3L"). MI3L is a holding company of Macquarie Investment Management Korea Co. Limited and Macquarie Management GmbH. An impairment of £2,561,000 was recorded during the year.

Macquarie Investment Management Holdings (Austria) GmbH

The Company owns 100% of the share capital of Macquarie Investment Management Holdings (Austria) GmbH ("MIMH"). MIMH is an Austrian holding company of Macquarie Investment Management Austria Kapitalanlage AG.

Details of holdings by subsidiary undertakings are as below:

Name of related party	Registered office	% ownership	Class of shares
Subsidiaries of MBIL:			
Macquarie Investments 3 Limited ("MI3L")	Ropemaker Place, 28 Ropemaker Street, London, EC2Y 9HD, United Kingdom	100%	Ordinary
Macquarie Investment Management Holdings (Austria) GmbH ("MIMH")	Kärntner Straße 28, 1010 Wien, Austria	100%	Ordinary
Subsidiaries of MI3L:			
Macquarie Investment Management Korea Co. Limited.	(Yeouido-dong, One IFC 20F), 10 Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, Korea, Republic of Korea	100%	Ordinary
Macquarie Management GmbH	OpernTurm, Bockenheimer Landstrasse 2-4, 60306 Frankfurt am Main, Germany	100%	Ordinary
Subsidiary of MIMH:			
Macquarie Investment Management Austria Kapitalanlage AG	Kärntner Straße 28, 1010, Wien, Austria	100%	Ordinary

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

	2016 £'000	2015 £'000
Note 11. *Deferred tax assets*		
The balance comprises timing differences attributable to:		
Other assets and liabilities	**1,346**	663
Fixed assets	**1,428**	512
Total deferred tax assets	**2,774**	1,175
Net deferred tax assets	**2,774**	1,175
Reconciliation of the Company's movement in deferred tax assets:		
Balance at the beginning of the financial year	**1,175**	570
Timing differences:		
Amounts credited to profit and loss	**972**	252
Effect of changes in tax rates	**541**	(18)
Deferred tax charged to equity	**139**	291
Adjustments to tax in respect of prior years	**(53)**	80
Balance at the end of the financial year	**2,774**	1,175

Note 12. Deposits

Margin deposit	**130,095**	55,222
Other deposits	**7,120**	1,583
Total deposits	**137,215**	56,805

Of the above, £130,444,000 (2015: £55,222,000) is expected to be settled within 12 months of the balance sheet date by the Company.

Note 13. Payables to financial institutions

Amounts owed to other Macquarie Group undertakings	**104,899**	-
Total debt issued at amortised cost	**104,899**	-

Included within this balance is an amount of £101,445,000 which is expected to be settled within 12 months of the balance sheet date by the Company.

Note 14. Other liabilities

Accrued charges and sundry provisions	**756**	589
Amounts owed to other Macquarie Group undertakings[1]	**2,205**	122
Deferred income[2]	**233**	826
Other	**417**	224
Total other liabilities	**3,611**	1,761

[1]Amounts owed to other Macquarie Group undertakings are unsecured and have no fixed date of repayment. The Company incurs interest on intercompany balances at market rates and at 31 March 2016 the rate applied was LIBOR plus 1.47% (2015: LIBOR plus 1.31%).

[2] Deferred income represents discounts received on undrawn loan commitments. This is amortised on an effective interest rate basis over the life of each loan facility once drawn.

The majority of the above amounts except deferred income are expected to be settled within 12 months of the balance sheet date by the Company.

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

	2016 £'000	2015 £'000
Note 15. Provisions		
Provision for employee entitlements	**2,521**	1,413
Total provisions	**2,521**	1,413
Maturity profile of provision for employee entitlements		
Within 1 year	**1,373**	987
Between 1 and 2 years	**167**	91
Between 2 and 5 years	**981**	335
Balance at the end of the financial year	**2,521**	1,413
Reconciliation of provisions:		
Balance at the beginning of the financial year	**1,413**	1,270
Provisions made during the year	**1,978**	856
Provisions utilised during the year	**(909)**	(645)
Foreign currency translation	**39**	(68)
Balance at the end of the financial year	**2,521**	1,413

Note 16. Derivative financial instruments

The following tables provide details of the Company's outstanding derivative financial instruments as at 31 March.

				2016				2015
	Notional amount £'000	Asset valuation £'000	Liability valuation £'000	Net fair value £'000	Notional amount £'000	Asset valuation £'000	Liability valuation £'000	Net fair value £'000
Interest rate contracts								
Swaps	**351,471**	**17,910**	**(17,970)**	**(60)**	420,677	32,072	(32,072)	-
Options	**26,626**	**75**	**(75)**	**-**	22,318	15	(15)	-
Total interest rate contracts	**378,097**	**17,985**	**(18,045)**	**(60)**	442,995	32,087	(32,087)	-
Foreign exchange contracts								
Forwards	**509,738**	**23,825**	**(24,858)**	**(1,033)**	939,856	104,415	(104,954)	(539)
Options	**6,453**	**50**	**(50)**	**-**	-	-	-	-
Total Foreign exchange contracts	**516,191**	**23,875**	**(24,908)**	**(1,033)**	939,856	104,415	(104,954)	(539)
Commodity contracts								
Forwards	**294,138**	**22,157**	**(22,157)**	**-**	402,098	25,464	(25,464)	-
Swaps	**2,041,368**	**286,756**	**(286,824)**	**(68)**	1,360,921	93,462	(93,462)	-
Options	**462,085**	**42,473**	**(42,473)**	**-**	333,655	16,927	(16,927)	-
Total commodity contracts	**2,797,591**	**351,386**	**(351,454)**	**(68)**	2,096,674	135,853	(135,853)	-
Total derivative contracts outstanding	**3,691,879**	**393,246**	**(394,407)**	**(1,161)**	3,479,525	272,355	(272,894)	(539)

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

Note 17. Capital management strategy

The Company is subject to the European Union ("EU") Capital Adequacy Directive minimum capital requirements as implemented by the Prudential Regulatory Authority in the UK. As such, the Company seeks to:

- Ensure sufficient capital resources are held to support the Company's business and operational requirements;
- Maintain sufficient capital to exceed externally imposed capital requirements; and
- Safeguard the Company's ability to continue as a going concern.

The components of the Company's regulatory capital base are share capital, other reserves and the profit and loss account. The level of contributed equity issued by the Company is not expected to change significantly in the foreseeable future.

The Company operates within the framework of the Macquarie Group policy to upstream profits in the form of dividends to MGL. The dividend capacity of the Company is assessed semi-annually. The dividend is set by the Directors after considering the required level of capital to meet current and expected business activities.

There has been no change to the approach of managing capital during the year ended 31 March 2016 by the Company in comparison to the prior reporting year. At all times during the year ended 31 March 2016 the Company was in compliance with both internally and externally imposed capital requirements to which it is subject. As such, there was no consequence of non-compliance imposed upon the Company.

As part of the consolidated MBL group, the capital requirements also form part of the disclosures provided within the consolidated financial statements of MBL and MGL, which are available from the address given in Note 30.

The return on assets for the financial year ended 31 March 2016 was 0.09 per cent (2015: 1.4 per cent), calculated as profit attributable to ordinary equity holders divided by the total assets of the Company.

Note 18. Called up share capital

	2016 Number of shares	2015 Number of shares	**2016 £'000**	2015 £'000
Ordinary share capital				
Opening balance of fully paid ordinary shares	**200,000,000**	200,000,000	**200,000**	200,000
Closing balance of fully paid ordinary shares	**200,000,000**	200,000,000	**200,000**	200,000
Authorised share capital				
Ordinary shares of £1 each	**400,000,000**	400,000,000	**400,000**	400,000
Total authorised share capital	**400,000,000**	400,000,000	**400,000**	400,000

Note 19. Contribution from ultimate parent entity in relation to share-based payments

Opening balance of contribution from ultimate parent entity in relation to share-based payments	**704**	542
Deferred tax on share-based payments	**139**	162
Closing balance of contribution from ultimate parent entity in relation to share-based payments	**843**	704

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

	2016 £'000	2015 £'000
Note 20. Reserves and profit and loss account		
Reserves		
Foreign currency translation reserve		
Balance at the beginning of the financial year	**104**	(16)
Exchange differences on translation of foreign operations	**(284)**	120
Balance at the end of the financial year	**(180)**	104

Exchange differences arising from the translation of the Company's foreign branches, which have functional currencies other than pound sterling, are taken to the foreign currency translation reserve.

Available for sale reserve		
Balance at the beginning of the financial year	**1,009**	1,196
Revaluation movement for the financial year, net of tax	**8**	(187)
Release of reserve to profit and loss account, net of tax	**(1,017)**	-
Balance at the end of the financial year	**-**	1,009
Total reserves	**(180)**	1,113
Profit and loss account		
Balance at the beginning of the financial year	**(11,761)**	(19,099)
Profit for the financial year	**749**	7,338
Balance at the end of the financial year	**(11,012)**	(11,761)

Note 21. Directors' emoluments

Director emoluments for the Company for the financial year ended 31 March 2016 were £93,825 (2015: £90,000).

All Directors, apart from the Independent Non-Executive Directors, were employed by and received all emoluments from other Macquarie Group undertakings. The Directors perform director duties for multiple entities in the Macquarie Group, as well as their employment duties within Macquarie Group businesses. Consequently, allocating their employment compensation accurately across all of these duties would not be feasible. Accordingly, no separate remuneration has been disclosed apart from where stated above.

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

Note 22. Employee equity participation

Macquarie Group Employee Retained Equity Plan

MGL continues to operate the MEREP in conjunction with remuneration arrangements. These arrangements included a decrease in the portion of staff profit share paid in cash and an increase in the portion delivered as MGL equity, an increase in the proportion of deferred remuneration and cessation of new option grants under the Macquarie Group Employee Share Option Plan ("MGESOP").

Award Types under the MEREP

Restricted Share Units ("RSUs")

A RSU is a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the plan trustee ("Trustee"). The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights in the share. The participant also has the right to request the release of the share from the Trust, subject to the vesting and forfeiture provisions of the MEREP.

Deferred Share Units ("DSUs")

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by 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. DSUs have been granted with an expiry period of eight years.

The weighted average fair value of the DSU Awards granted during the financial year was A$80.35 (2015: A$59.25).

The awards are measured at their grant dates based on their fair value. 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. For the year ended 31 March 2016, compensation expense relating to the MEREP totalled £1,348,000 (2015: £103,000).

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

– staff other than Executive Directors with retained profit share ("Retained Profit Share Awards") and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed allocation of MEREP awards ("Promotion Awards");

– new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded either a fixed number of MEREP awards or a fixed Australian dollar value, depending on level ("New Hire Awards");

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd on or after each 1 July, in the 2nd, 3rd and 4th year following the year of grant
Retained DPS Awards representing 2009 retention	Executive Director	1/5th on or after each 1 July, in the 3rd, 4th, 5th, 6th and 7th year following the year of grant
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5th on or after each 1 July in the 3rd, 4th, 5th, 6th and 7th year following the year of grant
Retained DPS Awards for 2010 and all future years' retention	All other Executive Director	1/3rd on or after each 1 July in the 3rd, 4th and 5th year following the year of grant
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

Vesting will occur on the first day of a staff trading window following 1 July of the specified year.

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.

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

	2016 £'000	2015 £'000
Note 23. Contingent liabilities and commitments		
The following contingent liabilities and commitments exclude derivatives.		
Contingent liabilities exist in respect of:		
Letters of credit	**6,095**	5,332
Guarantees	**2,357**	-
Total contingent liabilities[1]	**8,452**	5,332
Commitments exist in respect of:		
Undrawn credit facilities	**19,188**	45,096
Total commitments[2]	**19,188**	45,096
Total contingent liabilities and commitments	**27,640**	50,428

[1]Contingent liabilities exist in respect of actual and potential claims that arise in the conduct of the Company's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities above. The Company is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Company's business, financial condition or performance.

[2]Total commitments to provide credit may convert to loans and other assets in the ordinary course of business.

Note 24. Lease commitments

	2016 £'000	2015 £'000
Non-cancellable operating leases expiring:		
Not later than one year	**137**	121
Later than one year and not later than five years	**236**	340
Total capital and other expenditure commitments	**373**	461

Operating leases relate to commercial buildings. Annual rates are set at the beginning of the lease. The lease has two break options on 31 October 2016 (with 12 months notice, penalty of €90,000) and on 30 November 2018 (with 12 months notice). The lease commitment has been recognised until the break date of 30 November 2018 only, although the lease in Germany expires on 31 December 2023.

Note 25. Financial risk management

Risk management group

Risk is an integral part of the Macquarie Group's businesses. The Company is exposed to a variety of financial risks that include the effect of credit risk, liquidity risk, operational risk, market risk and exposure to the performance of its subsidiaries. Additional risks faced by the Company include legal, compliance and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of RMG to ensure appropriate project assessment, monitoring and overall management of these risks.

RMG is independent of all other areas of the Macquarie Group. The Head of RMG, as Macquarie's Chief Risk Officer, is a member of the Executive Committee of MGL and MBL and reports directly to the Managing Director and Chief Executive Officer 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 of MGL.

The risks which the Company are exposed to are managed on a globally consolidated basis for MGL as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions (i.e. not differentiating where the risk is taken within Macquarie).

25.1 Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due.

Credit risk within the Company is managed within a limit framework established by RMG and approved by the Board of Directors. Certain business operations within the Company mitigate their exposure to credit risk by utilising a risk transfer agreement to transfer credit risk to MBL.

The balances disclosed in the credit risk tables on the next page exclude financial assets that are subject to risks other than credit risk, such as equity investments.

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

Note 25. Financial risk management (continued)
25.1 Credit risk (continued)
Maximum exposure to credit risk

The table below details the concentration of credit exposure of the Company's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Company's assets.

2016	Receivable from financial institutions £'000	Loan assets held at amortised cost £'000	Derivative assets £'000	Other assets £'000	Investment securities available for sale £'000	Credit commitments and contingent liabilities £'000	Total £'000
Australia							
Financial institutions	-	-	79,248	40,338	-	-	119,586
Other	-	13	-	26	-	1,981	2,020
Total Australia	-	13	79,248	40,364	-	1,981	121,606
Americas							
Financial institutions	-	-	-	-	-	-	-
Other	-	1,429	-	40,550	-	6,095	48,074
Total Americas	-	1,429	-	40,550	-	6,095	48,074
Asia Pacific							
Other	-	6,809	-	-	-	-	6,809
Total Asia Pacific	-	6,809	-	-	-	-	6,809
Europe, Middle East & Africa							
Financial institutions	92,379	45,413	-	111	-	6,242	144,145
Other	-	188,841	313,998	228	-	13,322	516,389
Total Europe, Middle East & Africa	92,379	234,254	313,998	339	-	19,564	660,534
Total gross credit risk	92,379	242,505	393,246	81,253	-	27,640	837,023

The above credit risk disclosures are stated before the application of the RTA with MBL.

2015	Receivable from financial institutions £'000	Loan assets held at amortised cost £'000	Derivative assets £'000	Other assets £'000	Investment securities available for sale £'000	Credit commitments and contingent liabilities £'000	Total £'000
Australia							
Financial institutions	66,985	-	117,055	7,754	-	-	191,794
Other	-	-	-	140	-	-	140
Total Australia	66,985	-	117,055	7,894	-	-	191,934
Americas							
Financial institutions	1,131	-	-	-	-	-	1,131
Other	-	6	-	1,394	-	5,332	6,732
Total Americas	1,131	6	-	1,394	-	5,332	7,863
Asia Pacific							
Other	-	5,308	-	336	-	5,648	11,292
Total Asia Pacific	-	5,308	-	336	-	5,648	11,292
Europe, Middle East & Africa							
Financial institutions	33,842	7,217	-	-	-	674	41,733
Other	-	78,647	155,300	27,258	1,780	38,774	301,759
Total Europe, Middle East & Africa	33,842	85,864	155,300	27,258	1,780	39,448	343,492
Total gross credit risk	101,958	91,178	272,355	36,882	1,780	50,428	554,581

The above credit risk disclosures are stated before the application of the RTA with MBL.

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

Note 25. Financial risk management (continued)
25.1 Credit risk (continued)
Collateral and credit enhancements held

Additional collateral

Reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

The Company leases assets and provides equipment financing and aircraft financing to various clients. Titles to the underlying fixed assets are held by the Company as collateral.

The Company excludes certain types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable values are insufficiently certain and therefore are assigned no amount for the above disclosure purposes.

Credit quality of financial assets

The table below shows the credit quality by class of financial asset, based on the Company's credit rating system.

Credit quality - 2016	Neither past due nor impaired					
	Investment Grade £'000	Below Investment Grade £'000	Default £'000	Unrated £'000	Past due or individually impaired £'000	Total £'000
Receivable from financial institutions						
Financial institutions	92,379	-	-	-	-	92,379
Loan assets held at amortised cost						
Financial institutions	37,356	8,056	-	-	-	45,412
Other	29,267	167,647	-	-	179	197,093
Derivative assets						
Financial institutions	79,248	-	-	-	-	79,248
Other	184,480	129,518	-	-	-	313,998
Other assets						
Financial institutions	40,080	370	-	-	-	40,450
Other	171	57	-	40,575	-	40,803
Total	462,981	305,648	-	40,575	179	809,383

Included in the past due category are balances overdue by one day or more.

Credit quality - 2015	Neither past due nor impaired					
	Investment Grade £'000	Below Investment Grade £'000	Default £'000	Unrated £'000	Past due or individually impaired £'000	Total £'000
Receivable from financial institutions						
Financial institutions	101,958	-	-	-	-	101,958
Loan assets held at amortised cost						
Financial institutions	7,217	-	-	-	-	7,217
Other	19,139	64,725	39	-	58	83,961
Derivative assets						
Financial institutions	117,055	-	-	-	-	117,055
Other	100,176	55,124	-	-	-	155,300
Other assets						
Other	7,754	-	-	29,128	-	36,882
Investment securities available for sale						
Other	-	1,780	-	-	-	1,780
Total	353,299	121,629	39	29,128	58	504,153

Included in the past due category are balances overdue by one day or more.

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

Note 25. Financial risk management (continued)
25.1 Credit risk (continued)

Ageing analysis of assets past due but not impaired and impaired assets

2016	Past due but not impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Impaired	Total
Class of financial asset	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loan assets held at amortised cost						
Other	9	115	55	-	-	179
Total	9	115	55	-	-	179

2015	Past due but not impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Impaired	Total
Class of financial asset	£'000	£'000	£'000	£'000	£'000	£'000
Loan assets held at amortised cost						
Other	17	4	18	19	-	58
Total	17	4	18	19	-	58

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance after provisions is disclosed in the past due analysis.
The factors taken into consideration by the Company when determining an asset to be impaired are set out in Note 1(viii).

25.2 Liquidity risk

Liquidity risk is the risk of an entity encountering difficulty in meeting obligations with respect to its financial liabilities. Liquidity risk within the Company is managed within limits established by RMG and the Treasury department and approved by the Board of Directors. The Company's management of its liquidity risk is in accordance with the Macquarie Group wide risk management framework.

The Company holds sufficient liquid assets to satisfy the Liquidity Coverage Ratio requirement as set by the Regulator. As at the balance sheet date, the Company holds £61,570,000 in qualifying High Quality Liquid Assets. Since the Company has started to monitor, the Liquidity Coverage Ratio has consistently exceeded the minimum requirement.

Contractual undiscounted cash flows

The table on the next page summarises the maturity profile of the Company's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company's deposit retention history.

Derivative financial instruments 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.

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

Note 25. *Financial risk management (continued)*
25.2 Liquidity risk (continued)

2016	On demand *£'000*	Less than 3 months *£'000*	3 to 12 months *£'000*	1 to 5 years *£'000*	Over 5 years *£'000*	Total *£'000*
Derivative financial instruments	-	394,407	-	-	-	394,407
Deposits	130,099	-	345	6,771	-	137,215
Payables to financial institutions	-	52,340	49,105	3,454	-	104,899
Other liabilities*	2,205	417	-	-	-	2,622
Total undiscounted cash flows	132,304	447,164	49,450	10,225	-	639,143

* Excludes items that are not financial instruments and non-contractual accruals and provisions.

2015	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Derivative financial instruments	-	272,894	-	-	-	272,894
Deposits	55,222	-	-	1,583	-	56,805
Payables to financial institutions	-	-	-	-	-	-
Other liabilities*	122	225	-	-	-	347
Total undiscounted cash flows	55,344	273,119	-	1,583	-	330,046

* Excludes items that are not financial instruments and non-contractual accruals and provisions.

25.3 Market risk

Market risk is the exposure to adverse changes in the value of the Company's trading portfolios as a result of changes in market prices or volatility. The Company is exposed to the following risks in each of the major markets in which it trades:

- foreign exchange: changes in spot and forward exchange rates and the volatility of exchange rates; and
- 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.

Certain business operations within the Company mitigate their exposure to market risk by utilising a RTA to transfer market risk to MBL.

All other market risks of the Company are managed within limits set by RMG, in line with the overall framework of the Macquarie Group.

Interest rate risk

The table below indicates the Company's exposure to movements in interest rates as at 31 March.

	Movement in basis points	2016 Sensitivity of profit before tax £'000	2015 Sensitivity of profit before tax £'000
Australian Dollar	+50	3	20
Euro	+50	127	332
Great British Pound	+50	695	542
United States Dollar	+50	89	(164)
Australian Dollar	-50	(3)	(20)
Euro	-50	(127)	(332)
Great British Pound	-50	(695)	(542)
United States Dollar	-50	(89)	164

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

Note 25. Financial risk management (continued)
25.3 Market risk (continued)
Foreign currency risk

The Company is exposed to foreign currency risk arising from transactions that it has entered into that are in a foreign currency.

	Movement of +10%		Movement of -10%	
	2016	2015	**2016**	2015
	Sensitivity of profit before tax	Sensitivity of profit before tax	**Sensitivity of profit before tax**	Sensitivity of profit before tax
	£'000	£'000	**£'000**	£'000
Australian Dollar	**184**	50	**(184)**	(50)
Euro	**(383)**	(121)	**383**	121
United States Dollar	**10**	35	**(10)**	(35)

Note 26. Fair values of financial assets and liabilities

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- Derivative financial instruments are measured at fair value by reference to quoted market prices when available (e.g. 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 (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of.

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 (e.g. 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.

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 variable rate financial instruments, including loan assets and liabilities carried at amortised cost are approximated by their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value.
- 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 credit worthiness of the borrower, and are approximated by their carrying amounts.
- Substantially all of the Company'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.
- The fair values of balances due from/to related entities are approximated by their carrying amount as the balances are generally receivable/payable on demand.

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

Note 26. Fair values of financial assets and liabilities (continued)

The fair value of all financial assets and liabilities approximates their carrying value at the balance sheet date.

As at 31 March 2016, the fair values of financial assets and liabilities held at amortised cost are predominantly classified as level 2 in the fair value hierarchy, except for Cash at bank of £30,809,000 (2015: £70,191,000) in 'Receivables from financial institutions', Payable to financial institutions of £104,899,000 (2015: nil) and Deposits of £137,215,000 (2015: £56,805,000), *which are classified as level 1.*

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value of the Company at 31 March 2016:

2016	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets				
Derivative assets	-	378,930	14,316	393,246
Investment securities available for sale	-	-	-	-
Total assets	-	378,930	14,316	393,246
Liabilities				
Derivative liabilities	-	(380,091)	(14,316)	(394,407)
Total liabilities	-	(380,091)	(14,316)	(394,407)

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value of the Company at 31 March 2015:

2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivative assets	-	240,156	32,199	272,355
Investment securities available for sale	-	1,780	-	1,780
Total assets	-	241,936	32,199	274,135
Liabilities				
Derivative liabilities	-	(240,695)	(32,199)	(272,894)
Total liabilities	-	(240,695)	(32,199)	(272,894)

Reconciliation of balances in Level 3 of the fair value hierarchy

During the financial year ended 31 March 2016, the entire opening balance of level 3 derivative financial instruments amounting to £32,199,000 were fully matured. The closing balance of gross derivative financial instruments as at 31 March 2016 amounting to £14,316,000 represents new issuances during the year.

During the financial year ended 31 March 2015, there were transfers from level 2 to 3. Transfers into level 3 were due to the lack of observable valuation inputs for certain financial instruments. The net transfers into level 3 and the closing balance is nil. The net transfers into level 3 comprise of gross derivative assets of £32,199,000 and derivative liabilities of £32,199,000.

The associated net fair value gains or losses recognised in the profit and loss account for assets and liabilities in level 3 is also nil.

Note 27. Pillar 3 Disclosure

For the purposes of the Prudential Regulatory Authority Pillar 3 disclosure requirements, the Company has made available the necessary documents on its UK website. This can be found at http://www.macquarie.com/uk/about/investors/regulatory-disclosures.

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

Note 28. Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet in accordance with criteria described in Note 1(xvi) - Offsetting financial instruments. The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not qualify for offsetting in the balance sheet. The tables exclude amounts not subject to offsetting or enforceable netting arrangements.

	Amounts covered by enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
2016	**Gross amounts £'000**	**Amounts offset £'000**	**Net amount presented £'000**	**Other recognised financial instruments £'000**	**Cash and other financial collateral £'000**	**Net amount £'000**
Receivables from financial institutions[1]	186,914	(125,344)	61,570	-	(61,570)	-
Derivative assets	328,788	-	328,788	(124,460)	(29,363)	174,965
Loan asset at amortised cost	206	-	206	-	(206)	-
Other assets	166,762	(126,643)	40,119	-	-	40,119
Total assets	**682,670**	**(251,987)**	**430,683**	**(124,460)**	**(91,139)**	**215,084**
Payables to financial institutions	(230,243)	125,344	(104,899)	-	-	(104,899)
Derivative liabilities	(392,246)	-	(392,246)	124,460	(2,795)	(270,581)
Deposits	(33,165)	-	(33,165)	-	32,364	(801)
Other liabilities	(128,733)	126,643	(2,090)	-	-	(2,090)
Total liabilities	**(784,387)**	**251,987**	**(532,400)**	**124,460**	**29,569**	**(378,371)**

	Amounts covered by enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
2015	Gross amounts £'000	Amounts offset £'000	Net amount presented £'000	Other recognised financial instruments £'000	Cash and other financial collateral £'000	Net amount £'000
Receivables from financial institutions[1]	206,174	(107,423)	98,751	-	(31,767)	66,984
Derivative assets	267,054	-	267,054	(152,427)	(50,115)	64,512
Other assets	136,129	(100,282)	35,847	-	-	35,847
Loan assets held at amortised cost	2,273	-	2,273	-	(2,273)	-
Total assets	611,630	(207,705)	403,925	(152,427)	(84,155)	167,343
Payables to financial institutions	(107,423)	107,423	-	-	-	-
Derivative liabilities	(273,671)	-	(273,671)	152,427	2,163	(119,081)
Deposits	(51,000)	-	(51,000)	-	50,225	(775)
Other liabilities	(100,282)	100,282	-	-	-	-
Total liabilities	(532,376)	207,705	(324,671)	152,427	52,388	(119,856)

[1]Included within this balance are reverse repurchase arrangements.

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 1(xvi) "Offsetting financial instruments" and are limited to the gross carrying values of the financial instruments. Therefore, when an asset is offset by a liability and the asset carrying value exceeds the liability carrying value, then the net amount is presented in assets.

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

Note 28. Offsetting financial assets and financial liabilities (continued)

Amounts subject to enforceable netting arrangements

Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effect on the Company's financial position in that circumstance is to settle as one arrangement.

'Other recognised financial instruments' discloses other financial instruments recognised on balance sheet and 'Cash and other financial collateral' discloses amounts received or pledged in relation to the gross amounts of assets and liabilities. Both are subject to enforceable netting arrangements but are not offset due to the rights of set off applying only upon default or other predetermined events. This excludes non-financial instrument collateral.

The amounts subject to enforceable netting arrangements but not set off on the balance sheet have been limited to the net amount presented on the balance sheet so as not to include effects of over-collateralisation.

Note 29. Transition to FRS101

Reconciliation

For all periods up to and including the year ended 31 March 2015, the Company prepared its financial statements in accordance with UK GAAP. The Company has adopted FRS 101 and these financial statements, for the year ended 31 March 2016, are the first the Company prepared in accordance with FRS 101.

Accordingly, the accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 March 2016, the comparative information presented in these financial statements for the year ended 31 March 2015 and in the preparation of an opening balance sheet as at 1 April 2014, the Company's date of transition.

Reconciliation of equity as at 1 April 2014

	UK GAAP £'000	Deferred tax on share-based payments £'000	FRS 101 £'000
Assets			
Receivables from financial institutions	63,227	-	63,227
Derivative assets	60,155	-	60,155
Investment securities available for sale	33,528	-	33,528
Other assets	30,539	-	30,539
Loan assets held at amortised cost	105,399	-	105,399
Tangible assets	106	-	106
Shares in group undertakings	20,311	-	20,311
Deferred tax assets	570	129	699
Total assets	**313,835**	**129**	**313,964**
Liabilities			
Derivative liabilities	60,251	-	60,251
Deposits	15,100	-	15,100
Current tax liabilities	908	-	908
Other liabilities	53,812	-	53,812
Provisions	1,270	-	1,270
Total liabilities	**131,341**	**-**	**131,341**
Net assets	**182,494**	**129**	**182,623**
Shareholders' funds			
Called up share capital	200,000	-	200,000
Contribution from ultimate parent entity in relation to share-based payments	413	129	542
Reserves	1,180	-	1,180
Profit and loss account	(19,099)	-	(19,099)
Total shareholders' funds	**182,494**	**129**	**182,623**

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

Note 29. Transition to FRS101 (continued)

Reconciliation of equity as at 31 March 2015

	UK GAAP £'000	Deferred tax on share-based payments £'000	FRS 101 £'000
Assets			
Receivables from financial institutions	101,958	-	101,958
Derivative assets	272,355	-	272,355
Investment securities available for sale	1,780	-	1,780
Other assets	37,481	-	37,481
Loan assets held at amortised cost	91,178	-	91,178
Tangible assets	59	-	59
Shares in group undertakings	18,697	-	18,697
Deferred tax assets	884	291	1,175
Total assets	524,392	291	524,683
Liabilities			
Derivative liabilities	272,894	-	272,894
Deposits	56,805	-	56,805
Current tax liabilities	1,754	-	1,754
Other liabilities	1,761	-	1,761
Provisions	1,413	-	1,413
Total liabilities	334,627	-	334,627
Net assets	189,765	291	190,056
Shareholders' funds			
Called up share capital	200,000	-	200,000
Contribution from ultimate parent entity in relation to share-based payments	413	291	704
Reserves	1,113	-	1,113
Profit and loss account	(11,761)	-	(11,761)
Total shareholders' funds	189,765	291	190,056

The transition from UK GAAP to FRS 101 had no impact on the statement of comprehensive income as at 31 March 2015. Hence, no reconciliation has been presented.

Note 30. Ultimate parent undertaking

The immediate parent undertaking of the Company is Macquarie Holdings (UK) No.1 Limited.

The ultimate parent undertaking and controlling party of the Company is MGL. The largest group to consolidate these financial statements is MGL, a company incorporated in Australia. The smallest group to consolidate these financial statements is MBL, a company incorporated in Australia. Copies of the consolidated financial statements for MGL and MBL can be obtained from the Company Secretary, Level 6, 50 Martin Place, Sydney, New South Wales, 2000, Australia.

Note 31. Events after the reporting period

There were no material events subsequent to 31 March 2016 that have not been reflected in the financial statements.

Macquarie Bank International Limited
Macquarie Investment Management Holdings (Austria) GmbH
Macquarie Investment Management Austria Kapitalanlage AG
Macquarie Investments 3 Limited
Macquarie Management GmbH
Macquarie Investment Management Korea Co., Ltd.
("the Companies" or "the MBI Group")

Country by country disclosure

2016

Region	Activity	Turnover £	Profit/(loss) £	Corporation tax paid £	Average FTE employees
Austria	Funds management and investment advisory services	13,065,146	2,186,187	421,240	40
Germany	Corporate advisory services	2,541,407	(1,283,115)	115,664	10
Korea	Funds management	8,175,801	206,795	143,262	50
UK	Licenced banking and investment management	6,491,683	23,205,338	-	2
Intercompany elimination		-	179,819	-	-
Total		30,274,037	24,495,024	680,166	102

Note 1. Basis of preparation

The Capital Requirements (Country by country reporting) Regulations 2013 came in to effect on 1 January 2014, and have been transposed into UK law to impose certain reporting obligations on institutions within the United Kingdom within the scope of EU Capital Requirements Directive IV (CRDIV). The Directors are responsible for preparation of the country by country reporting disclosure in accordance with the above regulations.

Macquarie Bank International Limited ("MBI") does not prepare consolidated financial statements as disclosed in the Note 1 to the financial statements for the year ended 31 March 2016. The Companies, which form part of the MBI Group, prepare and present their financial statements on a stand alone company basis.

The table above presents the MBI Group's consolidated turnover, profit/loss, corporation cash tax paid and number of employees, allocated by country on the basis of each entity's tax domicile.

Turnover has been disclosed in line with the financial statements of the standalone entities within the MBI Group. Employee numbers represent average full-time equivalent (FTE) permanent employees.

The entities did not receive any public subsidies.

Independent Auditors' Report to the members of:

Macquarie Bank International Limited
Macquarie Investment Management Holdings (Austria) GmbH
Macquarie Investment Management Austria Kapitalanlage AG
Macquarie Investments 3 Limited
Macquarie Management GmbH
Macquarie Investment Management Korea Co., Ltd.
("the Companies")

We have audited the accompanying schedule of the Companies for the year ended 31 March 2016 ("the schedule"). The schedule has been prepared by the directors based on the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Directors' Responsibility for the schedule

The directors are responsible for the preparation of the schedule in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, for the appropriateness of the basis of preparation and the interpretation of the Regulations as they affect the preparation of the schedule, and for such internal control as the directors determine is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the schedule 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 management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the country-by-country information in the schedule as at 31 March 2016 is prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Basis of Preparation and Restriction on Distribution

Without modifying our opinion, we draw attention to Note 1 to the schedule, which describes the basis of preparation. The schedule is prepared to assist the directors to meet the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. As a result, the schedule may not be suitable for another purpose.

Our report is intended solely for the benefit of the directors of the companies. We do not accept or assume any responsibility or liability to any other party save where terms are agreed between us in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London

22 July 2016