

# MACQUARIE BANK INTERNATIONAL LIMITED

COMPANY NUMBER 06309906

Annual Report and Financial Statements  
for the financial year ended 31 March 2017



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

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# Macquarie Bank International Limited

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## 2017 Annual Report and Financial Statements

### Contents

	Page
<b>Strategic Report</b>	<b>2</b>
<b>Directors' Report</b>	<b>5</b>
<b>Independent Auditors' Report to the members of Macquarie Bank International Limited</b>	<b>7</b>
<b>Financial Statements</b>	
Profit and loss account	9
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	12
Notes to the financial statements	
Note 1. Summary of significant accounting policies	13
Note 2. Profit on ordinary activities before taxation	21
Note 3. Employment information	22
Note 4. Tax on profit on ordinary activities	22
Note 5. Receivables from financial institutions	23
Note 6. Derivative financial instruments	23
Note 7. Investment securities available for sale	23
Note 8. Other assets	24
Note 9. Loan assets held at amortised cost	24
Note 10. Tangible assets	25
Note 11. Investment in subsidiaries	25
Note 12. Deferred tax assets	26
Note 13. Assets classified as held for sale	26
Note 14. Deposits	26
Note 15. Payables to financial institutions	27
Note 16. Other liabilities	27
Note 17. Provisions	27
Note 18. Capital management strategy	28
Note 19. Called up share capital	28
Note 20. Contribution from ultimate parent entity in relation to share-based payments	29
Note 21. Reserves and profit and loss account	29
Note 22. Related party information	30
Note 23. Directors' remuneration	30
Note 24. Employee equity participation	31
Note 25. Contingent liabilities and commitments	33
Note 26. Lease commitments	33
Note 27. Financial risk management	33
Note 28. Fair values of financial assets and liabilities	38
Note 29. Pillar 3 Disclosure	39
Note 30. Offsetting financial assets and financial liabilities	40
Note 31. Ultimate parent undertaking	42
Note 32. Events after the reporting period	42
<b>Country by Country Reporting</b>	
Country by country reporting disclosure	43
Independent Auditors' Report to the members of the MBI Group	44

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# Macquarie Bank International Limited

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## Strategic Report for the financial year ended 31 March 2017

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 and report as follows:

### Principal activities

The principal activity of the Company during the financial year ended 31 March 2017 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 Global Markets Group (formerly known as 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 2017 was £11,281,000 as compared to a profit of £749,000 in the previous year.

Total operating income for the year ended 31 March 2017 was £18,890,000, an increase of 45 per cent from the operating income of £13,062,000 in the previous year.

Total operating expenses for the year ended 31 March 2017 were £7,130,000 as compared to operating expenses of £12,592,000 in the previous year.

As at 31 March 2017, the Company had net assets of £200,947,000 (2016: £189,651,000).

The German branch contributed a loss of £1,659,000 (2016: loss of £1,291,000) and the Austrian branch contributed a profit of £276,000 (2016: profit of £221,000) to the overall profit on ordinary activities before taxation of £11,760,000 (2016: profit of £470,000).

### 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 material risks of the Company are monitored 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 31.

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 2017

### 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 of the Company. The Regional Chief Risk Officer ("CRO") also participates in the risk acceptance and monitoring the risks of the Company. Where appropriate, 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 as per the policy 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 undertakings and external parties which are denominated in non-functional currencies. Any material non-functional currency exposures are managed by applying a group wide process of minimising exposure at a group or individual business level.

## Strategic Report (continued) for the financial year ended 31 March 2017

### 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



DAVID FASS  
20 JULY, 2017

## **Directors' Report**

### **for the financial year ended 31 March 2017**

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 Pléwman  
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 2017 was £11,281,000 (2016: £749,000).

#### **Dividends paid or provided for**

No dividends were paid or proposed during the financial year (2016: £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"). Following the Restructure Deed, on 30 November 2016, the Company entered into the EMEA Restructure Deed with a subsidiary of MFHPL, Macquarie Investment Management Europe Limited ("MIMEL") to transfer MIM business assets. In accordance with the EMEA Restructure Deed, Macquarie Investment Management Holdings (Austria) GmbH ("MIM Austria") was transferred on 1 December 2016 to MIMEL and the remaining MIM business assets were classified as held for sale as of 31 March 2017.

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**

Effective 3 July 2017, the UK and German assets for the MIM business of the Company were transferred to MIMEL under the EMEA Restructure Deed.

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 2017 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. The financial risk management objectives and policies of the Company and the exposure of the Company to credit risk, liquidity risk, operational risk and market risk are contained within the Strategic Report.

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# Macquarie Bank International Limited

Company Number 06309906

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## Directors' Report (continued) for the financial year ended 31 March 2017

### 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 Annual Report and the financial statements in accordance with applicable law and regulation.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "*Reduced Disclosure Framework*", and applicable law). 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 United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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. The Directors 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

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director 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

Director

  
DAVID FASSE  
20 JULY, 2017

# **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 2017 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, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 March 2017;
- the Profit and loss account and 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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

## **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 & 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 & 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 Annual Report 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Lawrence Wilkinson (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

21 July 2017

# Macquarie Bank International Limited

## Financial Statements

### Profit and loss account for the financial year ended 31 March 2017

	Note	2017 £'000	2016* £'000
Interest receivable and similar income		20,595	19,461
Interest payable and similar charges		(17,933)	(15,198)
Net interest income	2	2,662	4,263
Fee and commission income		23,092	17,666
Fee and commission expense		(16,882)	(12,150)
Net fee and commission income	2	6,210	5,516
Other operating income and charges	2	10,018	3,283
Total operating income		18,890	13,062
Administrative expenses	2	(7,130)	(10,031)
Impairment charge on investment in subsidiaries		-	(2,561)
Total operating expenses		(7,130)	(12,592)
<b>Profit on ordinary activities before taxation</b>	2	<b>11,760</b>	<b>470</b>
Tax on profit on ordinary activities	4	(479)	279
<b>Profit for the financial year</b>	21	<b>11,281</b>	<b>749</b>
<b>Profit attributable to ordinary equity holders of Macquarie Bank International Limited</b>		<b>11,281</b>	<b>749</b>

\*Certain comparative information for the financial year ended 31 March, 2016 has been reclassified, refer to Note 1(xx) - Risk transfer agreements for details.

The above profit and loss account should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

Profit on ordinary activities before taxation relate to continuing operations.

# Macquarie Bank International Limited

## Statement of comprehensive income for the financial year ended 31 March 2017

	Note	2017 £'000	2016 £'000
<b>Profit for the financial year</b>		<b>11,281</b>	<b>749</b>
Other comprehensive expense <sup>(1)</sup> :			
Available for sale investments, net of tax	21	53	(1,009)
Exchange differences on translation of foreign operations, net of tax	21	(275)	(284)
<b>Total other comprehensive expense</b>		<b>(222)</b>	<b>(1,293)</b>
<b>Total comprehensive income/(expense)</b>		<b>11,059</b>	<b>(544)</b>
<b>Total comprehensive income/(expense) attributable to Ordinary equity holders of Macquarie Bank International Limited</b>		<b>11,059</b>	<b>(544)</b>

<sup>(1)</sup>All items of other comprehensive losses may be reclassified subsequently to profit or loss.

The above statement of comprehensive income should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

# Macquarie Bank International Limited

## Balance sheet as at 31 March 2017

	Note	2017 £'000	2016 £'000
<b>Assets</b>			
Receivables from financial institutions	5	133,547	92,379
Derivative assets	6	191,556	393,246
Investment securities available for sale	7	25,653	-
Other assets	8	19,228	81,329
Loan assets held at amortised cost	9	480,181	242,505
Tangible assets	10	7	27
Investments in subsidiaries	11	-	17,055
Deferred tax assets	12	1,869	2,774
Assets classified as held for sale	13	7,070	-
<b>Total assets</b>		<b>859,111</b>	<b>829,315</b>
<b>Liabilities</b>			
Derivative liabilities	6	190,640	394,407
Deposits	14	186,054	137,215
Payables to financial institutions	15	274,164	101,055
Current tax liabilities		-	855
Other liabilities	16	4,937	3,611
Provisions	17	2,369	2,521
<b>Total liabilities</b>		<b>658,164</b>	<b>639,664</b>
<b>Net assets</b>		<b>200,947</b>	<b>189,651</b>
<b>Shareholders' funds</b>			
Called up share capital	19	200,000	200,000
Contribution from ultimate parent entity in relation to share-based payments	20	1,080	843
Reserves	21	(402)	(180)
Profit and loss account	21	269	(11,012)
<b>Total shareholders' funds</b>		<b>200,947</b>	<b>189,651</b>

The above balance sheet should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

The financial statements on pages 9 to 42 were authorised for issue by the Board of Directors on 20 JULY, 2017 and were signed on its behalf by:

  
 Director  
 (DAVID PASS)

# Macquarie Bank International Limited

## Statement of changes in equity for the financial year ended 31 March 2017

	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 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 expense	21	-	-	(1,293)	749	(544)
Other equity movements:						
Deferred tax on share-based payments		-	139	-	-	139
<b>Balance at 31 March 2016</b>		<b>200,000</b>	<b>843</b>	<b>(180)</b>	<b>(11,012)</b>	<b>189,651</b>
Profit for the financial year		-	-	-	11,281	11,281
Other comprehensive expense, net of tax		-	-	(222)	-	(222)
Total comprehensive income	21	-	-	(222)	11,281	11,059
Other equity movements:						
Deferred tax on share-based payments		-	237	-	-	237
<b>Balance at 31 March 2017</b>		<b>200,000</b>	<b>1,080</b>	<b>(402)</b>	<b>269</b>	<b>200,947</b>

The above balance sheet should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

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# Macquarie Bank International Limited

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## Notes to the financial statements for the financial year ended 31 March 2017

### 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 principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment securities available for sale and certain financial assets and financial liabilities (including derivative instruments) measured at fair value through profit and loss, and in accordance with the Companies Act 2006.

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 Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in full consolidation in the consolidated financial statements of its ultimate parent Macquarie Group Limited ("MGL"), a company incorporated in Australia.

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 ("IFRS").

The Company is qualifying entity for the purposes of FRS 101. Note 31 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- 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 was as determined).
- 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 paragraphs of IAS 1, 'Presentation of financial statements':
  - o 10 (d), (statement of cash flows),
  - o 16 (statement of compliance with all IFRS),
  - o 38A (requirement for minimum of two primary statements, including cash flow statements),
  - o 38 B-D (additional comparative information), and
  - o 111 (cash flow statement information).
- 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 'Related Party Disclosures' 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.
- 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'.

#### 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(vi) and 28);
- assets classified as held for sale (Notes 1(ix) and 13);
- impairment of loan assets held at amortised cost, investment securities available for sale, investment in subsidiaries (Notes 1(x), 7, 9, and 11); and
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(v), 4 and 12).

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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 1. Summary of significant accounting policies (continued)

#### i) Basis of preparation (continued)

##### **Critical accounting estimates and significant judgements (continued)**

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) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

#### iii) 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.

#### iv) 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.

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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 1. Summary of significant accounting policies (continued)

#### iv) Revenue and expense recognition (continued)

##### *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 and foreign exchange differences.

##### *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.

#### v) Taxation

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

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

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

The Company undertakes transactions in the ordinary course of business where the income tax treatment and recognition of deferred tax assets requires the exercise of judgement. The Company estimates its tax liability based on its understanding of the tax law.

#### vi) 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 on 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 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 values of derivatives are recognised in the profit and loss, unless the derivative meets the requirements for hedge accounting.

The best evidence of a derivative's fair value at initial recognition is its transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique for which variables include only data from observable markets. Where such alternative evidence exists, the Company recognises profits or losses immediately when the derivative is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit or loss is deferred and is recognised in the profit and loss account over the life of the transaction or when the inputs become observable.



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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 1. Summary of significant accounting policies (continued)

#### vii) 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.

#### viii) 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 receivables*

This category includes loan assets held at amortised cost and 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.

#### *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(iv).

#### *Investment in subsidiaries*

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.

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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 1. Summary of significant accounting policies (continued)

#### ix) Assets classified as held for sale

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

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

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

#### x) 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 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.

##### *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.

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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 1. Summary of significant accounting policies (continued)

#### x) Impairment (continued)

##### *Investment securities available for sale (continued)*

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.

##### *Investments in subsidiaries*

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

#### xi) 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.

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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 1. Summary of significant accounting policies (continued)

#### xii) 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.

#### xiii) 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 24 - 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.

#### xiv) Cash and cash equivalents

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

#### xv) 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.

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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 1. Summary of significant accounting policies (continued)

#### xvi) 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.

#### xvii) Financial liabilities

The Company has in 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.

#### xviii) 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.

#### xix) 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.

#### xx) 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 ("RTA"), in the form of back to back trades with MBL. The effect of these agreements is to pass on the risks and rewards of the underlying transactions. These arrangements do not meet the derecognition criteria under IAS 39 Financial Instruments: Recognition and Measurement.

As a result of review of the RTA during the year, a reclassification was made in the prior year from fee and commission expense of £8,087,000 to interest payable and similar charges of £10,519,000 offset by an increase to interest receivable and similar income of £2,432,000 in the profit and loss account. Also, a reclassification of £3,844,000 from other assets to payable to financial institutions has been made in the prior year. There was no impact on net profit or net assets in the prior year. The loans under the RTA are funded participations which means that the terms of the loans between the Company and the external clients are the same as the terms between the Company and MBL under the RTA. The changes made to the profit and loss account and balance sheet better reflect these agreements.

#### xxi) 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.

#### xxii) Comparatives

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

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

	2017 £'000	2016 £'000
<b>Note 2. Profit on ordinary activities before taxation</b>		
<b>Net interest income</b>		
Interest receivable and similar income from:		
Subsidiaries	11	54
Other related entities	4,609	5,824
Unrelated entities	13,341	12,420
Finance lease income from unrelated entities	2,634	1,163
Interest payable and similar charges to:		
Subsidiaries	(28)	(26)
Other related entities	(15,992)	(14,431)
Unrelated entities	(1,913)	(741)
<b>Net interest income</b>	<b>2,662</b>	<b>4,263</b>
<b>Net fee and commission income</b>	<b>6,210</b>	<b>5,516</b>
<b>Other operating income and charges</b>		
Dividend income	1,570	1,739
Net trading income	182	493
Amounts written back on investment securities available for sale	-	30
Gain on sale of investment securities available for sale	-	-1,825
Gain on sale of investment in a subsidiary	7,514	-
Provisions on loans for the financial year	685	(1,069)
Other income	67	265
<b>Total other operating income</b>	<b>10,018</b>	<b>3,283</b>
<b>Total operating income</b>	<b>18,890</b>	<b>13,062</b>
<b>Administrative expenses</b>		
Staff costs:		
Wages and salaries	(2,639)	(4,916)
Staff benefit costs	(117)	(113)
Social security costs	(32)	(69)
Share-based payment costs	(313)	(1,348)
Other staff costs	(189)	(412)
Directors' emoluments	(110)	(94)
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the Company	(179)	(105)
Fees payable to the Company's auditors and its associates for other services pursuant to legislation	(36)	(82)
Fees payable to the Company's auditors and its associates for taxation compliance services	(7)	(14)
Fees payable to the Company's auditors and its associates for other non-audit services <sup>1</sup>	(100)	-
Technology expense – information services	(2)	(31)
Depreciation	(27)	(40)
Services from other Macquarie Group undertakings	(1,322)	(773)
Operating lease rentals	(201)	(148)
Other accommodation expenses	(41)	(56)
Other professional fees	(1,435)	(1,550)
Other expenses	(380)	(280)
<b>Total administrative expenses</b>	<b>(7,130)</b>	<b>(10,031)</b>

<sup>1</sup>Fees for certain non-audit services provided to the Company and other Macquarie Group Undertakings by the Company's auditors have been borne by other Macquarie Group Undertakings. Out of the total fees of £53,000, a portion of the fees attributable to the Company is not recognised as an expense in the financial statements.

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 3. Employment information

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

	2017	2016
<b>By operating group</b>		
Macquarie Asset Management	14	13
Corporate and Asset Finance	-	1
<b>Total average number of employees</b>	<b>14</b>	<b>14</b>
Represents permanent employees of the Company.		
	2017	2016
	£'000	£'000

### Note 4. Tax on profit on ordinary activities

#### Analysis of tax for the year

##### Current tax:

UK corporation tax at 20% (2016: 20%)	(550)	(1,286)
Adjustments to tax in respect of prior years	1,011	113
Overseas tax	(83)	(64)
Double tax relief	57	55
<b>Total current tax</b>	<b>435</b>	<b>(1,182)</b>

##### Deferred tax:

Origination and reversal of timing differences	(57)	972
Adjustments to tax in respect of prior years	(599)	(52)
Change in tax rate	(258)	541
<b>Total deferred tax</b>	<b>(914)</b>	<b>1,461</b>
<b>Tax on profit on ordinary activities</b>	<b>(479)</b>	<b>279</b>

Factors affecting tax debit for the year:

The income tax charge for the year is lower (2016 credit for the year: lower) than the standard rate of corporation tax in the UK of (2016: 20%). The differences are explained below:

<b>Profit on ordinary activities before taxation</b>	<b>11,760</b>	<b>470</b>
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 20% (2016: 20%)	(2,352)	(94)
Effects of:		
Adjustments to tax in respect of prior years	412	61
Foreign tax incurred	(83)	(64)
Double tax relief	57	55
Bank surcharge tax	(132)	(118)
Non deductible expenses	(94)	(450)
Non assessable income	1,971	348
Effect of changes in tax rates	(258)	541
<b>Total income tax</b>	<b>(479)</b>	<b>279</b>

The UK Government have enacted a reduction in the main rate of corporation tax from 20% to 19% from 1 April 2017 and a further reduction to 17% from 1 April 2020. The current rate for the banking surcharge is 8%.





# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

	2017 £'000	2016 £'000
<b>Note 8. Other assets</b>		
Amounts owed by other Macquarie Group undertakings <sup>1</sup>	16,950	76,807
Debtors and prepayments	391	3,406
Income tax receivables	22	-
VAT receivable	250	504
Other	1,615	612
<b>Total other assets</b>	<b>19,228</b>	<b>81,329</b>

<sup>1</sup>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 2017 the rate applied ranged between LIBOR plus 1.26% and LIBOR plus 1.90% (2016: between LIBOR plus 1.17% and LIBOR plus 1.62%).

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

## Note 9. Loan assets held at amortised cost

Loans and advances	458,848	236,355
Less individually assessed provisions for impairment	(1,241)	(1,934)
	457,607	234,421
Lease receivables	24,913	10,174
<b>Total loan assets before collective allowance for credit losses</b>	<b>482,520</b>	<b>244,595</b>
Less collective allowance for credit losses	(2,339)	(2,090)
<b>Total loan assets held at amortised cost</b>	<b>480,181</b>	<b>242,505</b>

Included within this balance is an amount of £379,046,000 (2016: £153,694,000) 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:

	Total future payments £'000	Unearned interest income £'000	2017 Present value £'000	Total future payments £'000	Unearned interest income £'000	2016 Present value £'000
Not later than one year	7,560	(98)	7,462	2,935	(305)	2,630
Between one and five years	17,526	(75)	17,451	7,665	(121)	7,544
<b>Total</b>	<b>25,086</b>	<b>(173)</b>	<b>24,913</b>	<b>10,600</b>	<b>(426)</b>	<b>10,174</b>

	2017 £'000	2016 £'000
<b>Individually assessed provisions for impairment</b>		
Balance at the beginning of the financial year	1,934	1,852
(Written back)/provided for during the financial year	(679)	20
Utilised during the financial year	(207)	-
Attributable to foreign currency translation	193	62
<b>Balance at the end of the financial year</b>	<b>1,241</b>	<b>1,934</b>

## Collective allowance for credit losses

Balance at the beginning of the financial year	2,090	919
(Written back)/provided for during the financial year	(6)	1,099
Attributable to foreign currency translation	255	72
<b>Balance at the end of the financial year</b>	<b>2,339</b>	<b>2,090</b>

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

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

	2017 £'000	2016 £'000
<b>Note 10. Tangible assets</b>		
<b>Furniture, fittings and leasehold improvements</b>		
Cost	181	224
Less accumulated depreciation	(174)	(197)
<b>Total furniture, fittings and leasehold improvements</b>	<b>7</b>	<b>27</b>
<b>Total tangible assets</b>	<b>7</b>	<b>27</b>

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

	2017 £'000
Balance at the beginning of the financial year	27
Acquisitions	16
Transfer to assets classified as held for sale	(11)
Foreign exchange movements	2
Depreciation expense	(27)
<b>Balance at the end of the financial year</b>	<b>7</b>

	2017 £'000	2016 £'000
<b>Note 11. Investment in subsidiaries</b>		
Investments at cost	-	10,616
Investments at cost with provisions for impairment	-	9,000
Less provisions for impairment	-	(2,561)
Investments at recoverable amount	-	17,055
<b>Total investments</b>	<b>-</b>	<b>17,055</b>

### Reconciliation of movement in fixed investments

Balance at the beginning of the financial year	17,055	18,697
Disposals during the year	(11,344)	-
Reclassified as held for sale	(6,439)	-
Impairment charge on investment in subsidiaries	-	(2,561)
Foreign exchange movements	728	919
<b>Balance at the end of the financial year</b>	<b>-</b>	<b>17,055</b>

Name of entity	Principal activity	Country of incorporation	% Ownership	2017 £'000	2016 £'000
<b>Shares in group undertakings comprise:</b>					
Macquarie Investments 3 Limited	Investment holding company	England and Wales	Reclassified as Held For Sale	-	6,439
Macquarie Investment Management Holdings (Austria) GmbH	Investment holding company	Austria	Sold in December 2016	-	10,616
<b>Total</b>				<b>-</b>	<b>17,055</b>

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

	2017 £'000	2016 £'000
<b>Note 12. Deferred tax assets</b>		
The balance comprises timing differences attributable to:		
Other assets and liabilities	1,468	1,346
Fixed assets	419	1,428
<b>Total deferred tax assets</b>	<b>1,887</b>	<b>2,774</b>
Tax effects of reserves	(18)	-
<b>Total deferred tax liabilities</b>	<b>(18)</b>	<b>-</b>
<b>Net deferred tax assets</b>	<b>1,869</b>	<b>2,774</b>

### Reconciliation of the Company's movement in deferred tax assets:

Balance at the beginning of the financial year	2,774	1,175
Timing differences:		
Amounts credited to profit and loss	(57)	972
Effect of changes in tax rates	(263)	541
Deferred tax charged to equity	32	139
Adjustments to tax in respect of prior years	(599)	(53)
<b>Balance at the end of the financial year</b>	<b>1,887</b>	<b>2,774</b>

### Reconciliation of the Company's movement in deferred tax liabilities:

Balance at the beginning of the financial year	-	-
Timing differences:		
Deferred tax charged to equity	(14)	-
Change in tax rate	(4)	-
<b>Balance at the end of the financial year</b>	<b>(18)</b>	<b>-</b>

### Note 13. Assets classified as held for sale

Investment in subsidiaries <sup>1</sup>	6,439	-
Receivables from financial institutions	513	-
Other assets	107	-
Tangible assets	11	-
<b>Total assets classified as held for sale<sup>2</sup></b>	<b>7,070</b>	<b>-</b>

<sup>1</sup>Represents Macquarie Investments 3 Limited ("MI3L") which is a 100% subsidiary of the Company.

<sup>2</sup>As a result of the Restructure Deed, the Company will sell its share MIM related assets to MIMEL.

Name of entity	Principal activity	Country of incorporation	% Ownership	2017 £'000	2016 £'000
Macquarie Investments 3 Limited	Investment holding company	England and Wales	100%	6,439	-
<b>Total</b>				<b>6,439</b>	<b>-</b>

### Note 14. Deposits

Margin deposit	177,758	130,095
Other deposits	8,296	7,120
<b>Total deposits</b>	<b>186,054</b>	<b>137,215</b>

Of the above, £177,724,000 (2016: £130,444,000) is expected to be settled within 12 months of the balance sheet date by the Company.

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

	2017 £'000	2016 £'000
<b>Note 15. Payables to financial institutions</b>		
Amounts owed to other Macquarie Group undertakings	127,141	101,055
Amounts owed to other banks	147,023	-
<b>Total debt issued at amortised cost</b>	<b>274,164</b>	<b>101,055</b>

Included within this balance is an amount of £248,057,000 (2016: £101,445,000) which is expected to be settled within 12 months of the balance sheet date by the Company.

### Note 16. Other liabilities

Accrued charges and sundry provisions	474	756
Amounts owed to other Macquarie Group undertakings <sup>1</sup>	1,427	2,205
Deferred income <sup>2</sup>	207	233
Other	2,829	417
<b>Total other liabilities</b>	<b>4,937</b>	<b>3,611</b>

<sup>1</sup>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 2017 the rate applied was LIBOR plus 1.53% (2016: LIBOR plus 1.47%).

<sup>2</sup>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.

### Note 17. Provisions

Provision for employee entitlements	2,369	2,521
<b>Total provisions</b>	<b>2,369</b>	<b>2,521</b>

#### Maturity profile of provision for employee entitlements:

Within 1 year	1,519	1,373
Between 1 and 2 years	415	167
Between 2 and 5 years	435	981
<b>Balance at the end of the financial year</b>	<b>2,369</b>	<b>2,521</b>

#### Reconciliation of provisions:

Balance at the beginning of the financial year	2,521	1,413
Provisions made during the year	999	1,978
Provisions utilised during the year	(1,321)	(909)
Foreign currency translation	170	39
<b>Balance at the end of the financial year</b>	<b>2,369</b>	<b>2,521</b>

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 18. 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 2017 by the Company in comparison to the prior reporting year. At all times during the year ended 31 March 2017 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 31.

The return on assets for the financial year ended 31 March 2017 was 1.31 per cent (2016: 0.09 per cent), calculated as profit attributable to ordinary equity holders divided by the total assets of the Company.

### Note 19. Called up share capital

	2017 Number of shares	2016 Number of shares	2017 £'000	2016 £'000
<b>Ordinary share capital</b>				
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
<b>Authorised share capital</b>				
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

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

	2017 £'000	2016 £'000
<b>Note 20. Contribution from ultimate parent entity in relation to share-based payments</b>		
Opening balance of contribution from ultimate parent entity in relation to share-based payments	843	704
Deferred tax on share-based payments	237	139
<b>Closing balance of contribution from ultimate parent entity in relation to share-based payments</b>	<b>1,080</b>	<b>843</b>
<b>Note 21. Reserves and profit and loss account</b>		
<b>Reserves</b>		
<b>Foreign currency translation reserve</b>		
Balance at the beginning of the financial year	(180)	104
Exchange differences on translation of foreign operations	(275)	(284)
<b>Balance at the end of the financial year</b>	<b>(455)</b>	<b>(180)</b>
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.		
<b>Available for sale reserve</b>		
Balance at the beginning of the financial year	-	1,009
Revaluation movement for the financial year, net of tax	53	8
Release of reserve to profit and loss account, net of tax	-	(1,017)
<b>Balance at the end of the financial year</b>	<b>53</b>	<b>-</b>
<b>Total reserves</b>	<b>(402)</b>	<b>(180)</b>
<b>Profit and loss account</b>		
Balance at the beginning of the financial year	(11,012)	(11,761)
Profit for the financial year	11,281	749
<b>Balance at the end of the financial year</b>	<b>269</b>	<b>(11,012)</b>

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 22. Related party information

As 100% of the voting rights of the Company are controlled within the group headed by MGL, incorporated in Australia, the Company has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with entities which form part of the Macquarie Group. The consolidated financial statements of MGL, within which the Company is included, can be obtained from the address given in Note 31.

The Company does not have any related party transactions or balances other than those with entities which form part of the Macquarie Group as mentioned above.

Details of holdings by subsidiary undertakings are as below:

Name of related party	Registered office	% ownership	Class of shares
<b>Subsidiaries of MI3L:</b>			
Macquarie Investment Management Korea Co. Ltd. <sup>1</sup>	(Yeouido-dong, One IFC 20F), 10 Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, Korea, Republic of Korea	100	Class A ordinary shares and Class B ordinary shares
Macquarie Management GmbH	OpernTurm, Bockenheimer Landstrasse 2-4, 60306 Frankfurt am Main, Germany	100	Class A ordinary shares

<sup>1</sup>On 5 April 2017, MI3L sold its investment in Macquarie Management GmbH to another group entity, Macquarie Specialised Investment Solutions Limited.

### Note 23. Directors' remuneration

Director emoluments for the Company for the financial year ended 31 March 2017 were £110,000 (2016: £93,825).

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.

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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 24. Employee equity participation

#### Macquarie Group Employee Retained Equity Plan ("MEREP")

MGL continues to operate the MEREP in conjunction with other remuneration arrangements. During the financial year, MGL made changes to align the buying and selling of Macquarie shares in relation to the MEREP. MGL may elect to implement similar arrangements in future periods.

#### Award Types under the MEREP

##### Restricted Share Units ("RSUs")

A RSU is a beneficial interest in a MGL ordinary share held in a trust ("Trust"), on behalf of a MEREP participant by the plan trustee ("Trustee").

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

##### Deferred Share Units ("DSUs")

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or direct the Trustee to acquire shares on-market, or via a share acquisition arrangement for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on MGL ordinary shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of MGL shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights with respect to any underlying MGL ordinary shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical. 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\$74.61 (2016: A\$80.35).

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 as a prepaid asset where MGL is reimbursed in advance.

RSUs and DSUs have been granted in the current year in respect of 2016. The fair value of each of these grants is estimated using Macquarie's share price on the date of grant.

While RSUs and DSUs for FY2017 will be granted during FY2018, the Company begins recognising an expense for these awards (based on an initial estimate) from 1 April 2016. The expense is estimated using the price of MGL ordinary shares as at 31 March 2017 and the number of equity instruments expected to vest. In the following financial year, the Company will adjust the accumulated expense recognised for the final determination of fair value for each DSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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

For the year ended 31 March 2017, compensation expense relating to the MEREP totalled £313,000 (2016: £1,348,000).

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

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



# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 24. Employee equity participation (continued)

Vesting periods are as follows:

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

<sup>(1)</sup> Vesting will occur during an eligible staff trading window.

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

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.

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

	2017 £'000	2016 £'000
<b>Note 25. Contingent liabilities and commitments</b>		
The following contingent liabilities and commitments exclude derivatives.		
<b>Contingent liabilities exist in respect of:</b>		
Letters of credit	4,471	6,095
Guarantees	379	2,357
<b>Total contingent liabilities<sup>1</sup></b>	<b>4,850</b>	<b>8,452</b>
<b>Commitments exist in respect of:</b>		
Forward asset purchases	59,689	-
Undrawn credit facilities <sup>2</sup>	33,401	19,188
<b>Total commitments</b>	<b>93,090</b>	<b>19,188</b>
<b>Total contingent liabilities and commitments</b>	<b>97,940</b>	<b>27,640</b>

<sup>1</sup>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.

<sup>2</sup>Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Company.

### Note 26. Lease commitments

Non-cancellable operating leases expiring:

Not later than one year	151	137
Later than one year and not later than five years	102	236
<b>Total capital and other expenditure commitments</b>	<b>253</b>	<b>373</b>

Operating leases relate to commercial buildings. Annual rates are set at the beginning of the lease. The lease has a break option 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 27. 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 of the Company. The Regional Chief Risk Officer ("CRO") also participates in the risk acceptance and monitoring the risks of the Company. Where appropriate, the 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).

#### 27.1 Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not repaid or the loss incurred in replicating a trading contract with a new counterparty. Credit risk within the Company is managed as per the policy 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.

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 27. Financial risk management (continued)

#### 27.1 Credit risk (continued)

##### Maximum exposure to credit risk

The table below details the concentration of maximum exposure to credit risk of the Company's assets, credit commitments and contingent liabilities by significant geographical locations and counterparty type. The maximum credit exposure is to each counterparty and does not take into consideration collateral or other credit enhancements. The geographical location is determined by the domicile and industry type of the counterparty.

	Receivable from financial institutions <sup>(1)</sup>	Derivative assets	Investment securities available for sale	Other assets	Loan assets held at amortised cost	Credit commitments and contingent liabilities	Total
2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Australia</b>							
Financial institutions	-	106,113	-	9,255	-	-	115,368
Other	-	-	-	326	-	-	326
<b>Total Australia</b>	-	106,113	-	9,581	-	-	115,694
<b>Americas</b>							
Other	-	-	-	6,052	2,972	4,471	13,495
<b>Total Americas</b>	-	-	-	6,052	2,972	4,471	13,495
<b>Europe, Middle East &amp; Africa</b>							
Financial institutions	133,547	-	-	1,133	127,039	-	261,719
Governments	-	-	25,653	-	-	-	25,653
Other	-	85,443	-	1,783	350,170	93,469	530,865
<b>Total Europe, Middle East &amp; Africa</b>	133,547	85,443	25,653	2,916	477,209	93,469	818,237
<b>Total gross credit risk</b>	133,547	191,556	25,653	18,549	480,181	97,940	947,426

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

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

	Receivable from financial institutions <sup>(1)</sup>	Derivative assets	Investment securities available for sale	Other assets	Loan assets held at amortised cost	Credit commitments and contingent liabilities	Total
2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Australia</b>							
Financial institutions	-	79,248	-	36,494	-	-	115,742
Other	-	-	-	26	13	1,981	2,020
<b>Total Australia</b>	-	79,248	-	36,520	13	1,981	117,762
<b>Americas</b>							
Other	-	-	-	40,550	1,429	6,095	48,074
<b>Total Americas</b>	-	-	-	40,550	1,429	6,095	48,074
<b>Asia Pacific</b>							
Other	-	-	-	-	6,809	-	6,809
<b>Total Asia Pacific</b>	-	-	-	-	6,809	-	6,809
<b>Europe, Middle East &amp; Africa</b>							
Financial institutions	92,379	-	-	111	45,413	6,242	144,145
Other	-	313,998	-	228	188,841	13,322	516,389
<b>Total Europe, Middle East &amp; Africa</b>	92,379	313,998	-	339	234,254	19,564	660,534
<b>Total gross credit risk</b>	92,379	393,246	-	77,409	242,505	27,640	833,179

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

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

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 27. Financial risk management (continued)

#### 27.1 Credit risk (continued)

##### Collateral and credit enhancements held

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 mitigates have value, often providing rights in insolvency, their assignable values are insufficiently certain and therefore are assigned no amount for the above disclosure purposes.

The Company has received £232,792,110 in collateral in the form of debt securities from MBL to cover credit risk exposures.

##### 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 - 2017

	Neither past due nor impaired				Past due or individually impaired <sup>1</sup>	Total
	Investment Grade £'000	Below Investment Grade £'000	Default £'000	Unrated £'000		
<b>Receivable from financial institutions</b>						
Financial institutions	133,547	-	-	-	-	133,547
<b>Derivative assets</b>						
Financial institutions	106,113	-	-	-	-	106,113
Other	35,946	49,497	-	-	-	85,443
<b>Investment securities available for sale</b>						
Governments	25,653	-	-	-	-	25,653
<b>Other assets</b>						
Financial institutions	9,960	16	-	412	-	10,388
Other	154	480	-	7,527	-	8,161
<b>Loan assets held at amortised cost</b>						
Financial institutions	122,590	-	-	-	4,448	127,038
Other	14,181	338,962	-	-	-	353,143
<b>Total</b>	<b>448,144</b>	<b>388,955</b>	<b>-</b>	<b>7,939</b>	<b>4,448</b>	<b>849,486</b>

<sup>1</sup>Included in the past due category are balances overdue by one day or more.

##### Credit quality - 2016

	Neither past due nor impaired				Past due or individually impaired <sup>1</sup>	Total
	Investment Grade £'000	Below Investment Grade £'000	Default £'000	Unrated £'000		
<b>Receivable from financial institutions</b>						
Financial institutions	92,379	-	-	-	-	92,379
<b>Derivative assets</b>						
Financial institutions	79,248	-	-	-	-	79,248
Other	184,480	129,518	-	-	-	313,998
<b>Other assets</b>						
Financial institutions	36,236	370	-	-	-	36,606
Other	171	57	-	40,575	-	40,803
<b>Loan assets held at amortised cost</b>						
Financial institutions	37,356	8,056	-	-	-	45,412
Other	29,267	167,647	-	-	179	197,093
<b>Total</b>	<b>459,137</b>	<b>305,648</b>	<b>-</b>	<b>40,575</b>	<b>179</b>	<b>805,539</b>

<sup>1</sup>Included in the past due category are balances overdue by one day or more.

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 27. Financial risk management (continued)

#### 27.1 Credit risk (continued)

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

2017	Past due but not impaired				Impaired	Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days		
Class of financial asset	£'000	£'000	£'000	£'000	£'000	£'000
<b>Loan assets held at amortised cost</b>						
Financial institutions	-	-	-	-	4,448	4,448
<b>Total</b>	-	-	-	-	4,448	4,448

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

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(x).

#### 27.2 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 £328,154,878 in qualifying High Quality Liquid Assets which includes collateral placed by MBL. The Liquidity Coverage Ratio has consistently exceeded the minimum regulatory 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.

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 27. Financial risk management (continued)

#### 27.2 Liquidity risk (continued)

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2017						
Derivative financial instruments	-	190,640	-	-	-	190,640
Deposits	177,724	-	-	8,330	-	186,054
Payables to financial institutions	-	196,742	47,744	29,678	-	274,164
Other liabilities*	3,810	434	-	-	-	4,244
<b>Total undiscounted cash flows</b>	<b>181,534</b>	<b>387,816</b>	<b>47,744</b>	<b>38,008</b>	<b>-</b>	<b>655,102</b>

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

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2016						
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
<b>Total undiscounted cash flows</b>	<b>132,304</b>	<b>447,164</b>	<b>49,450</b>	<b>10,225</b>	<b>-</b>	<b>639,143</b>

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

#### 27.3 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 monitored 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	2017 Sensitivity of profit before tax £'000	2016 Sensitivity of profit before tax £'000
Australian Dollar	+50	15	3
Euro	+50	62	127
Great British Pound	+50	681	695
United States Dollar	+50	381	89
Australian Dollar	-50	(15)	(3)
Euro	-50	(62)	(127)
Great British Pound	-50	(681)	(695)
United States Dollar	-50	(381)	(89)

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 27. Financial risk management (continued)

#### 27.3 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%	
	2017	2016	2017	2016
	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	46	184	(46)	(184)
Euro	(686)	(383)	686	383
Danish Krone	(61)	-	61	-
Swiss Franc	(62)	-	62	-
United States Dollar	(75)	10	75	(10)
Other currencies	(23)	-	23	-

### Note 28. 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.

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 28. Fair values of financial assets and liabilities (continued)

- 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.

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

As at 31 March 2017, 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 £65,805,000 (2016: £30,809,000) in 'Receivables from financial institutions', Payable to financial institutions of £130,712,000 (2016: £104,899,000) and Deposits of £186,054,000 (2016: £137,215,000), 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 2017:

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Derivative assets	-	167,634	23,922	191,556
Assets classified as held for sale	-	7,070	-	7,070
Investment securities available for sale	25,653	-	-	25,653
<b>Total assets</b>	<b>25,653</b>	<b>174,704</b>	<b>23,922</b>	<b>224,279</b>
<b>Liabilities</b>				
Derivative liabilities	-	(166,718)	(23,922)	(190,640)
<b>Total liabilities</b>	<b>-</b>	<b>(166,718)</b>	<b>(23,922)</b>	<b>(190,640)</b>

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
<b>Assets</b>				
Derivative assets	-	378,930	14,316	393,246
<b>Total assets</b>	<b>-</b>	<b>378,930</b>	<b>14,316</b>	<b>393,246</b>
<b>Liabilities</b>				
Derivative liabilities	-	(380,091)	(14,316)	(394,407)
<b>Total liabilities</b>	<b>-</b>	<b>(380,091)</b>	<b>(14,316)</b>	<b>(394,407)</b>

### Reconciliation of balances in Level 3 of the fair value hierarchy

During the financial year ended 31 March 2017, the entire opening balance of level 3 derivative financial instruments amounting to £14,316,000 were fully matured. The closing balance of gross derivative financial instruments as at 31 March 2017 amounting to £23,922,000 represents new issuances during the year.

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.

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 29. 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>.



# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 30. 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(xviii) - 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 <sup>5</sup>			Amounts not subject to enforceable netting arrangements	Balance Sheet total
	Gross amounts	Amounts offset	Net amount presented	Other recognised financial instruments <sup>4</sup>	Cash and other financial collateral <sup>6</sup>	Net amount		
2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Receivables from financial institutions <sup>1</sup>	170,122	(101,596)	68,526	-	(67,742)	784	65,021	133,547
Derivative assets	181,226	-	181,226	(129,233)	(8,994)	42,999	10,330	191,556
Other assets <sup>2</sup>	142,773	(126,056)	16,717	(8,469)	-	8,248	1,599	18,316
Loan asset at amortised cost	3,110	-	3,110	(3,092)	(18)	-	477,071	480,181
<b>Total assets</b>	<b>497,231</b>	<b>(227,652)</b>	<b>269,579</b>	<b>(140,794)</b>	<b>(76,754)</b>	<b>52,031</b>	<b>554,021</b>	<b>823,600</b>
Payables to financial institutions	(228,737)	101,596	(127,141)	28,372	-	(98,769)	(147,023)	(274,164)
Derivative liabilities	(167,743)	-	(167,743)	109,330	-	(58,413)	(22,897)	(190,640)
Deposits	(12,104)	-	(12,104)	3,092	9,012	-	(173,950)	(186,054)
Other liabilities <sup>3</sup>	(127,484)	126,056	(1,428)	-	-	(1,428)	(2,815)	(4,243)
<b>Total liabilities</b>	<b>(536,068)</b>	<b>227,652</b>	<b>(308,416)</b>	<b>140,794</b>	<b>9,012</b>	<b>(158,610)</b>	<b>(346,685)</b>	<b>(655,101)</b>

<sup>1</sup>Included within this balance are reverse repurchase arrangements.

<sup>2</sup>This balance excludes other non-financial assets of £679,000 which is included in Note 8 - Other assets.

<sup>3</sup>This balance excludes other non-financial liabilities of £694,000 which is included in Note 16 - Other liabilities.

<sup>4</sup>Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

<sup>5</sup>Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

<sup>6</sup>Related amounts not offset have been limited to the net amount presented in the balance sheet so as not to include the effect of over-collateralisation.

# Macquarie Bank International Limited

## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### Note 30. Offsetting financial assets and financial liabilities (continued)

	Amounts covered by enforceable netting arrangements						Amounts not subject to enforceable netting arrangements	Balance Sheet total
	Subject to offsetting on balance sheet			Related amounts not offset <sup>6</sup>				
	Gross amounts £'000	Amounts offset £'000	Net amount presented £'000	Other recognised financial instruments <sup>4</sup> £'000	Cash and other financial collateral <sup>5</sup> £'000	Net amount £'000		
2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Receivables from financial institutions <sup>1</sup>	186,914	(125,344)	61,570	-	(61,570)	-	30,809	92,379
Derivative assets	328,788	-	328,788	(124,460)	(29,363)	174,965	64,458	393,246
Other assets <sup>2</sup>	162,918	(126,643)	36,275	-	-	36,275	41,134	77,409
Loan assets held at amortised cost	206	-	206	-	(206)	-	242,299	242,505
Total assets	678,826	(251,987)	426,839	(124,460)	(91,139)	211,240	378,700	805,539
Payables to financial institutions	(226,399)	125,344	(101,055)	-	-	(101,055)	-	(101,055)
Derivative liabilities	(392,246)	-	(392,246)	124,460	(2,795)	(270,581)	(2,161)	(394,407)
Deposits	(33,165)	-	(33,165)	-	32,364	(801)	(104,050)	(137,215)
Other liabilities <sup>3</sup>	(128,733)	126,643	(2,090)	-	-	(2,090)	(532)	(2,622)
Total liabilities	(780,543)	251,987	(528,556)	124,460	29,569	(374,527)	(106,743)	(635,299)

<sup>1</sup>Included within this balance are reverse repurchase arrangements.

<sup>2</sup>This balance excludes other non-financial assets of £3,920,000 which is included in Note 8 - Other assets.

<sup>3</sup>This balance excludes other non-financial liabilities of £989,000 which is included in Note 16 - Other liabilities.

<sup>4</sup>Financial instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

<sup>5</sup>Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

<sup>6</sup>Related amounts not offset have been limited to the net amount presented in the balance sheet so as not to include the effect of over-collateralisation.

#### Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 1(xviii) "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.

#### 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.

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# Macquarie Bank International Limited

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## Notes to the financial statements (continued) for the financial year ended 31 March 2017

### **Note 31. 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 32. Events after the reporting period**

Effective 3 July 2017, the UK and German assets for the MIM business of the Company were transferred to MIMEL under the EMEA Restructure Deed.

There were no other material events subsequent to 31 March 2017 that have not been reflected in the financial statements.

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

**Country by country reporting disclosure**

2017

Region	Activity	Turnover £	Profit/(loss) £	Corporation tax paid/(refund received) £	Average FTE employees
Austria <sup>1</sup>	Funds management and investment advisory services	9,671,623	1,571,144	630,425	39
Germany	Corporate advisory services	2,699,294	(1,643,386)	(201,316)	11
Korea	Funds management	9,388,482	313,520	(30,323)	48
UK	Licensed banking and investment management	5,350,001	13,094,719	-	2
<i>Intercompany elimination</i>		-	(1,570,359)	-	-
<b>Total</b>		<b>27,109,400</b>	<b>11,765,638</b>	<b>398,786</b>	<b>100</b>

<sup>1</sup>Includes the results for Macquarie Investment Management Austria Kapitalanlage AG and Macquarie Investment Management Holdings (Austria) GmbH until the entities were transferred to MIMEL on 1 December 2016.

**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 the 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 Note 1 to the financial statements for the year ended 31 March 2017. 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 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 2017 ("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 controls 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 controls. 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.

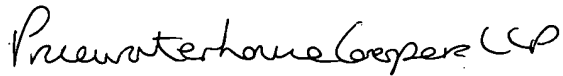
### **Opinion**

In our opinion, the country-by-country information in the schedule as at 31 March 2017 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London

21 July 2017